

May 21, 2002

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**REQUEST FOR APPROVAL OF PROPOSITION A AGREEMENT WITH
FIRST CHOICE MESSENGER, INC. FOR PROVISION OF
SUBPOENA PROCESS SERVICES, JUVENILE COURT SERVICES
FOR THE DEPARTMENT OF CHILDREN AND FAMILY SERVICES
(ALL SUPERVISORIAL DISTRICTS) (3 VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Find that services provided under this Proposition A Agreement can be more economically performed by the First Choice Messenger, Inc. than by County employees.
2. Approve and instruct the Chair to execute the attached Proposition A Agreement with First Choice Messenger, Inc. to provide Subpoena Process Services for the Department of Children and Family Services (DCFS), Juvenile Court Services from June 1, 2002, through May 31, 2005, for a total maximum contract sum of \$270,300. The funding for the first year of the Agreement is included in DCFS' FY 2001-02 Adopted Budget and FY 2002-03 Proposed County Budget. The contract cost will be financed using approximately \$234,593 in Federal/State revenue and \$35,707 in net County cost.
3. Authorize the Director of DCFS, or her designee, to execute contract amendments to increase the contract sum by no more than ten per cent (10%) of the maximum contract sum should the volume of required services exceed currently anticipated service needs provided that: (a) the increased cost can be absorbed within DCFS' existing budget, (b) approval of County Counsel and the Chief Administrative Office (CAO) is obtained prior to any such amendment, and (c) the Director of DCFS confirms in writing to the Board of Supervisors and the CAO within 15 workdays after execution.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Approval of this Agreement will enable DCFS to continue to provide reliable, quality subpoena process services for the Department's Juvenile Court Services Section.

One function performed by DCFS is to bring to the attention of the Juvenile Court those children requiring judicial intervention. DCFS' Juvenile Court Services Section works with the Office of the County Counsel in preparing dependency matters for hearings before the Juvenile Court, including the preparation of subpoenas and citations for service on parties and witnesses in these cases. Los Angeles County Sheriff's Department served the subpoenas for the Department before DCFS determined that it is more cost effective to contract with independent contractors as permitted by Proposition A.

Implementation of Strategic Plan Goals

The recommended actions are consistent with the principles of the Countywide Strategic Plan Goal #5 (Children and Families Well-Being). The recommended actions will provide coordination, collaboration and integration of services for children and families across functional and jurisdictional boundaries and measure progress toward improving the five outcomes for children. The five outcomes include good health; economic well-being; safety and survival; emotional and social well-being; and educational readiness. Subpoena Process Services are necessary to achieve participation and cooperation of all parties responsible for the children's care and supervision.

FISCAL IMPACT/FINANCING

The maximum annual contract amount of the Agreement is \$90,100. The total contract amount for the three-year period from June 1, 2002, through May 31, 2005, is \$270,300. Funding for this Agreement is 53.65% (\$145,016) Federal, 33.14% (\$89,577) State 13.21% (\$35,707) County. The total avoidable cost for the Agreement is \$306,002 for a total savings of \$35,702, including a County cost savings of \$4,716.

The funding for this contract is included in the FY 2001-02 Adopted Budget and the FY 2002-03 Proposed County Budget.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

This Proposition A Agreement with First Choice Messenger, Inc. is to provide subpoena process services for DCFS' Juvenile Court Services. The term of the three-year Agreement is June 1, 2002, through May 31, 2005.

Subpoena process services are required by the Juvenile Court in dependency matters to ensure the delivery of documents to persons who are entitled or specified by law to receive them. Service of process is the delivery, within legally prescribed time limits, of a document or documents to persons who are entitled or specified by law to receive them. It includes subpoenas, notices of hearings, court reports, and citations.

First Choice Messenger, Inc. is the contractor for the current Agreement for subpoena process services for DCFS' Juvenile Court Services.

DCFS evaluated and determined that the contractor fully complies with the requirements of the Living Wage Program (County Code Chapter 2.201) and contractor agrees to pay its full-time employees providing County services a living wage.

Section 23-610 of the California State Department of Social Services Regulations contain the requirements for contract procurement. Those requirements were followed by DCFS.

First Choice Messenger, Inc. is in compliance with all Board, CAO and County Counsel requirements.

The Board Letter has been reviewed by County Counsel and the CAO. The Agreement has been approved as to form by County Counsel. The CAO has also approved the Board letter.

CONTRACTING PROCESS

On December 26, 2001, a Request for Proposals (RFP) was released to solicit proposals from qualified vendors to provide subpoena process services for DCFS' Juvenile Court Services.

Notifications were sent to thirty-two vendors on the Department's mailing list of messenger service agencies that provide subpoena process services. Advertisements were placed on the County Office of Small Business Web Site and in four local newspapers. The publications in each local newspaper were advertised on three separate dates.

Six (6) vendors picked up copies of the RFP, four (4) vendors attended the mandatory Proposer's Conference, and two (2) vendors submitted proposals. First Choice Messenger, Inc. was the only vendor to submit a proposal that met all requirements of the RFP. First Choice was also found to be a responsible proposer.

The Auditor-Controller has determined that it is cost effective to have this subpoena services performed by an independent contractor.

The Agreement between the County and Contractor expressly provides that the County of Los Angeles has no obligation to pay for expenditures by the Contractor beyond the contract amount. Further, Contractor will not be asked to perform services which exceed the contract amount, scope of work, or contract dates.

IMPACT ON CURRENT SERVICES

Approval of this Agreement will enable the Department to continue providing subpoena process services for Juvenile Court Services so that court proceedings will be held as required by law.

CONCLUSION

Upon approval and execution by the Board of Supervisors, it is requested that the Executive Officer/Clerk of the Board send an adopted copy of the Board Letter and Agreement to:

- 1) Office of County Counsel
201 Centre Plaza Drive, Suite 1
Monterey Park, CA 91754
Attention: Kathleen Felice, Senior Deputy County Counsel

2) First Choice Messenger, Inc.
3225 Fletcher Drive
Los Angeles, CA 90065
Attention: Cal Mejia, General Manager

Respectfully submitted,

ANITA M. BOCK
Director

AMB:bd

Attachments (2)

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors
Auditor-Controller

COUNTY OF LOS ANGELES

DEPARTMENT OF CHILDREN AND FAMILY SERVICES

AGREEMENT WITH

FIRST CHOICE MESSENGER, INC.

**FOR SUBPOENA PROCESS SERVICES
JUVENILE COURT SERVICES**

JUNE 2002

TABLE OF CONTENTS

1.0	APPLICABLE DOCUMENTS.....	2
2.0	CONTRACTOR'S SERVICES.....	3
3.0	TERM AND TERMINATION.....	3
4.0	CONTRACT SUM.....	3
5.0	PAYMENT AND INVOICES.....	3
6.0	RECORDS AND AUDITS.....	4
7.0	AUDIT SETTLEMENT.....	6
8.0	INDEMNIFICATION.....	6
9.0	GENERAL INSURANCE REQUIREMENTS.....	6
10.0	INSURANCE COVERAGE REQUIREMENTS.....	8
11.0	COMPLIANCE WITH LIVING WAGE PROGRAM.....	9
12.0	NOTICES.....	14
13.0	CHANGES AND AMENDMENTS.....	15
14.0	ASSIGNMENT/DELEGATION OF RIGHTS.....	16

15.0	SUBCONTRACTING.....	16
16.0	INDEPENDENT CONTRACTOR STATUS.....	18
17.0	COVENANT AGAINST CONTINGENT FEES.....	18
18.0	DISCLOSURE OF INFORMATION.....	18
19.0	COMPLIANCE WITH APPLICABLE LAWS.....	19
20.0	COMPLIANCE WITH CIVIL RIGHTS LAWS.....	19
21.0	NON-DISCRIMINATION IN EMPLOYMENT.....	19
22.0	CLIENT GRIEVANCES.....	20
23.0	EVENTS OF DEFAULT.....	20
24.0	TERMINATION FOR DEFAULT.....	21
25.0	TERMINATION FOR IMPROPER CONSIDERATION.....	21
26.0	TERMINATION FOR CONVENIENCE.....	22
27.0	DETERMINATION OF CONTRACTOR NON-RESPONSIBILITY AND CONTRACTOR DEBARMENT.....	23
28.0	LIMITATION OF COUNTY'S OBLIGATION DUE TO NON-APPROPRIATION OF FUNDS.....	24
29.0	CONFLICT OF INTEREST.....	24

30.0	EMPLOYEE BENEFITS AND TAXES.....	24
31.0	NOTICE TO EMPLOYEES REGARDING THE FEDERAL EARNED INCOME CREDIT.....	25
32.0	CONFIDENTIALITY.....	25
33.0	CONTRACT ENFORCEMENT, QUALITY ASSURANCE PLAN, MONITORING, AND REVIEW.....	25
34.0	EMPLOYMENT ELIGIBILITY VERIFICATION.....	26
35.0	CRIMINAL CLEARANCES.....	26
36.0	CHILD SUPPORT COMPLIANCE PROGRAM.....	28
37.0	FORMER FOSTER YOUTH CONSIDERATION.....	29
38.0	CONSIDERATION OF HIRING COUNTY EMPLOYEES TARGETED FOR LAYOFFS.....	29
39.0	CONSIDERATION OF GREATER AVENUES FOR INDEPENDENCE (GAIN) OR GENERAL RELIEF OPPORTUNITIES FOR WORK (GROW) PARTICIPANTS FOR EMPLOYMENT.....	30
40.0	COUNTY LOBBYIST.....	30
41.0	NOTICE OF DELAYS.....	30
42.0	USE OF RECYCLED-CONTENT PAPER.....	31

43.0	CHILD ABUSE PREVENTION REPORTING.....	31
44.0	COMMUNITY BUSINESS ENTERPRISES PROGRAM.....	31
45.0	AUTHORIZATION WARRANTY.....	31
46.0	DISPUTE RESOLUTION PROCEDURE.....	31
47.0	PROPRIETARY RIGHTS.....	32
48.0	INTERPRETATION OF CONTRACT.....	33

AGREEMENT
SUBPOENA PROCESS SERVICES FOR
JUVENILE COURT SERVICES

PROP A
FOR

This Agreement, made and entered into this ____ day of _____ 2002, by and between

County of Los Angeles
hereinafter referred to as
"COUNTY"

and

First Choice Messenger, Inc.
hereinafter referred to as
"CONTRACTOR"

W I T N E S S E T H

WHEREAS, pursuant to Los Angeles County Code Sections 2.121.250 et seq., COUNTY is permitted to contract with private business when, as here, COUNTY determines that the services can be performed more economically by a CONTRACTOR than by COUNTY employees, and

WHEREAS, CONTRACTOR has submitted an offer to COUNTY for provision of such services and based on competitive sealed bidding under Los Angeles County Code section 2.121.320, CONTRACTOR has been selected for recommendation for award of this Agreement, and

WHEREAS, pursuant to
Government Code Sections 26227, 31000 and
53703, COUNTY is permitted to contract for
services, and

WHEREAS, the COUNTY desires to provide Subpoena Process Services for Juvenile Court Services and

WHEREAS, COUNTY has determined that the services to be provided under this Agreement are necessary to ensure the protection and safety of dependent children of the Juvenile Court, and

WHEREAS, CONTRACTOR warrants that it possesses the competence, expertise and personnel necessary to provide such services; and

WHEREAS, the following terms, as used in this Agreement, shall have the following meanings:

- A. "Contract" means a legally binding Agreement between two parties;
- B. "Day(s)" means calendar day(s) unless otherwise specified;
- C. "DCFS" means County's Department of Children and Family Services;
- D. "Director" means County's Director of Children and Family Services or her authorized designee;
- E. "Fiscal Year(s)" means County's Fiscal Year which commences July 1 and ends the following June 30;
- F. "Project" means the work to be performed by Contractor as defined in Exhibit A, Statement of Work;
- G. "Program Manager" means County representative responsible for daily management of contract operation and overseeing monitoring activities;
- H. "Subcontract" means a contract by which a third party agrees to provide services or materials necessary to fulfill an original contract.

NOW THEREFORE, in consideration of the mutual promises, covenants and conditions set forth herein, the parties hereto and each of them do agree as follows:

1.0 APPLICABLE DOCUMENTS

- 0.1 This Agreement, and the Exhibits hereto, constitute the complete and exclusive statement of understanding between the parties, which supersedes all previous agreements, written or oral, and all other communications between the parties relating to the subject matter of this Agreement.
- 0.2 Exhibits A, B, B-1, C, D, E, F, G, H, I, and J set forth below are attached to and incorporated by reference in this Agreement.
- 0.3 In the event of any conflict in the definition or interpretation of any word, responsibility, service, schedule, or contents of a deliverable product between this Agreement and Exhibits, or among Exhibits, said conflict or inconsistency shall be resolved by giving precedence first to the Agreement, and then to the Exhibits according to the following priority:

- Exhibit A -Statement of Work
- Exhibit B -Pricing Schedule
- Exhibit B-1 -Budget
- Exhibit C -Job and Performance Requirement Summary
- Exhibit D -Certification of Independent Price Determination
- Exhibit E -Contractor's Equal Employment Opportunity (EEO) Certification

- Exhibit F -Community Business Enterprise Form (CBE)
- Exhibit G -Employment Acknowledgment and Confidentiality Agreement
- Exhibit H -Auditor-Controller Contract Accounting and Administrative Handbook
- Exhibit I -Office of Management and Budget (OMB) Circular No. A-87-Cost Principles for State, Local and Indian Tribal Governments
- Exhibit J -Title 2 Administration, Chapter 2.201 Living Wage Program

2.0 CONTRACTOR'S SERVICES

- 2.1 Pursuant to the provisions of this Agreement, CONTRACTOR shall provide COUNTY with Subpoena Services as defined herein and as more fully set forth in Exhibit A, Statement of Work.

3.0 TERM AND CONDITION

- 3.1 The term of this Agreement shall commence on June 1, 2002 or date of execution by County Board of Supervisors, whichever is later, and shall continue through May 31, 2005 unless terminated earlier as provided herein.

4.0 CONTRACT SUM

- 4.1 During the term of this Agreement, COUNTY shall compensate CONTRACTOR for the services set forth in Exhibit A, Statement of Work, and at the rate of compensation set forth in Exhibit B, Pricing Schedule.
- 4.2 The total amount payable under this Agreement is **\$270,300**, Maximum Contract Sum. The maximum amount payable under this Agreement for each of the contract years shall not exceed **\$90,100**, Maximum Annual Contract Sum.
- 4.3 COUNTY has no obligation to pay for expenditures by CONTRACTOR that exceed the Maximum Contract Sum.
- 4.4 CONTRACTOR has prepared and submitted to COUNTY a budget segregating direct and indirect costs and profit for the work to be performed by CONTRACTOR under this Agreement. Budgeted expenses shall be reduced by applicable CONTRACTOR revenues, which are identified thereon. The line items shall provide sufficient detail to determine the quality and quantity of services to be delivered. This budget is attached hereto and incorporated by reference herein as Exhibit B-1, Budget. CONTRACTOR represents and warrants that the Budget is true and correct in all respects, and services shall be delivered hereunder in accordance with the Budget. In the event the Maximum Contract Sum is increased pursuant to Section 4.0 hereof, CONTRACTOR shall prepare and submit an amended Budget.

5.0 PAYMENT AND INVOICES

- 5.1 CONTRACTOR shall be paid for services provided on a monthly basis.
- 5.2 CONTRACTOR shall submit an invoice in arrears for services rendered in the

previous month. All invoices should be received within thirty (30) days of the last day of the previous month but may be received later than thirty (30) days, at COUNTY's sole discretion, as long as sufficient funds remain under the Agreement. All such services rendered by CONTRACTOR shall be paid in accordance with Exhibit B, Pricing Schedule.

- 5.3 Expenditures made by CONTRACTOR in the operation of this Agreement shall be in compliance and conformity with the Office of Management and Budget (OMB) Circular No. A-87-Cost Principles for State, Local and Indian Tribal Governments, references herein as Exhibit I.
- 5.4 CONTRACTOR shall submit the original monthly invoice to the Finance Office and one copy to the County Program Manager for review and approval.

CONTRACTOR shall send original invoices to be approved to:

County of Los Angeles
Department of Children and Family Services
425 Shatto Place, Room 402
Los Angeles, California 90020
Attention: Contract and Grant Payment Unit

And a duplicate copy of the invoices to:

Wilhelmina Bradley, Program Manager
County of Los Angeles
Department of Children and Family Services
Edelman's Children Court
Monterey Park, CA 91754

- 5.5 Upon receipt of CONTRACTOR's monthly invoice, COUNTY Program Manager or designee shall review the detailed charges to ensure charges are in accordance with the Agreement terms and that invoiced services have been received.
- 5.6 Upon approval of the monthly invoice, the County Program Manager, or designee, shall forward the invoice to the Finance Office for payment.
- 5.7 Payment to CONTRACTOR will be made in arrears on a monthly basis for services performed provided that the CONTRACTOR is not in default under any provision of this Agreement. COUNTY shall attempt to authorize payment within thirty (30) days following receipt of invoice, provided that all work performed during the preceding month has been reviewed, accepted, signed and dated by the Program Manager. COUNTY

has no obligation to pay for any work except those services expressly authorized by this Agreement.

- 5.8 In compliance with Internal Revenue Service (IRS) requirements, CONTRACTOR shall provide CONTRACTOR's Tax Identification Number.
- 5.9 CONTRACTOR is responsible for the accuracy of invoices submitted to COUNTY. Further, it is the responsibility of CONTRACTOR to reconcile or otherwise correct inaccuracies or inconsistencies in the invoices submitted by CONTRACTOR and to notify COUNTY with any overpayments received by CONTRACTOR.

6.0 RECORDS AND AUDITS

- 6.1 CONTRACTOR shall maintain accurate and complete financial records of all its activities and operations relating to this Agreement in accordance with generally accepted accounting principles and which meet the requirements for contract accounting described in the Auditor-Controller Contract Accounting and Administrative Handbook, herein referenced as Exhibit H. CONTRACTOR shall also maintain accurate and complete employment and other records relating to its performance of this Agreement. CONTRACTOR agrees that COUNTY, or its authorized representatives shall have access to and the right to examine, audit, excerpt, copy or transcribe any pertinent transaction, activity, or records relating to this Agreement. All such material, including, but not limited to, all financial records, timecards and other employment records and confidential information, shall be kept and maintained by CONTRACTOR at a location in Los Angeles County and shall be made available to COUNTY during the term of this Agreement and for a period of five (5) years thereafter unless COUNTY's written permission is given to dispose of any such material prior to such time. If such material is located outside of Los Angeles County, then, at COUNTY's sole option, CONTRACTOR shall pay COUNTY for travel per diem and other costs incurred by COUNTY in exercising its rights under this Section.
- 6.2 In the event that an audit is conducted of CONTRACTOR specifically regarding this Agreement by any Federal or State auditor, or by any auditor employed by CONTRACTOR or otherwise, then CONTRACTOR shall file a copy of such audit report with County's Auditor-Controller within thirty (30) days of CONTRACTOR's receipt thereof, unless otherwise provided by applicable Federal or State law or under this Agreement. COUNTY shall make a reasonable effort to maintain the confidentiality of such audit report(s).
- 6.3 CONTRACTOR shall be responsible for annual financial audits of its agency and its subcontractor(s) if required by COUNTY and/or the

California Department of Social Services (CDSS), to be conducted by an independent audit firm and in accordance with generally accepted auditing standards. Within thirty (30) calendar days after issuance of the audit reports, CONTRACTOR shall forward copies of such reports to DCFS.

- 6.4 CONTRACTOR shall, during normal business hours, allow appropriate County, State and Federal agencies, including CDSS, County's Auditor-Controller or its designee to evaluate, audit, review, inspect and monitor its accounting books and records of program operations, including the interview of CONTRACTOR's staff, insurance agents, banks, personnel, vendors and subcontractor(s). Methods may include the inspection of accounting ledgers, journals, canceled checks, timecards, personnel records, fringe benefit rate notices, receipts and invoices, payroll tax records, subcontracts, space and equipment lease agreements, and other relevant accounting books, records, worksheets and logs as appropriate for ensuring CONTRACTOR's accountability of expenditures and program performance under this Agreement. CONTRACTOR shall ensure the cooperation of all subcontractor(s), its staff, and Board members in all such efforts.
- 6.5 All uses of funds paid to CONTRACTOR and other financial transactions related to CONTRACTOR's provision of services under this Agreement are subject to review and/or audit by DCFS, County's Auditor-Controller or its designee, or the State of California. In the event this Agreement is subject to Audit exceptions, CONTRACTOR shall pay to COUNTY the full amount of CONTRACTOR's liability for such audit exceptions, as determined by DCFS, upon demand by COUNTY.
- 6.6 Failure on the part of CONTRACTOR to comply with the provisions of this Section shall constitute a material breach of this Agreement upon which COUNTY may withhold reimbursement or terminate this Agreement.

7.0 AUDIT SETTLEMENT

If, at any time during the term of this Agreement or within five (5) years after the expiration or termination of this Agreement, authorized representatives of COUNTY conduct an audit of CONTRACTOR regarding the services provided to COUNTY hereunder and if such audit finds that COUNTY's dollar liability for such services is less than payments made by COUNTY to CONTRACTOR, then CONTRACTOR agrees that the difference, at the COUNTY's discretion, shall be either: (1) repaid forthwith by CONTRACTOR to COUNTY by cash payment; or (2) at COUNTY's option, credited against future payments hereunder to CONTRACTOR. If such audit finds that COUNTY's dollar liability for services provided hereunder is more than payments made by COUNTY to CONTRACTOR, then the difference shall be paid to CONTRACTOR by COUNTY provided that in

no event shall COUNTY's maximum obligation for this Agreement exceed the Maximum Contract Sum.

8.0 INDEMNIFICATION

CONTRACTOR shall indemnify, defend and hold harmless COUNTY, its Special Districts, elected and appointed officers, employees, and agents from and against any and all liability, including but not limited to demands, claims, actions, fees, costs, and expenses (including attorney and expert witness fees), arising from or connected with CONTRACTOR's acts and/or omissions arising from and/or relating to this Agreement.

9.0 GENERAL INSURANCE REQUIREMENTS

Without limiting CONTRACTOR's indemnification of COUNTY and during the term of this Agreement, CONTRACTOR shall provide and maintain, and shall require all of its subcontractors to maintain, the programs of insurance specified in this Agreement in Section 10, Insurance Coverage Requirements. Such insurance shall be primary to and not contributing with any other insurance or self-insurance programs maintained by COUNTY, and such coverage shall be provided and maintained at CONTRACTOR's own expense.

9.1 Evidence of Insurance: Certificate(s) or other evidence of coverage satisfactory to COUNTY shall be delivered to DCFS Contract Administrator, Contract Management Services, Room 205, 425 Shatto Placement, Los Angeles, CA 90020 prior to commencing services under this Agreement. Such certificates or other evidence shall:

9.1.1 Specifically identify this Agreement.

9.1.2 Clearly evidence all coverages required in this Agreement.

9.1.3 Contain the express condition that COUNTY is to be given written notice by mail at least thirty (30) days in advance of cancellation for all policies evidenced on the certificate of insurance.

9.1.4 Include copies of the additional insured endorsement to the commercial general liability policy, adding the County of Los Angeles, its Special Districts, its officials, officers and employees as insureds for all activities arising from this Agreement.

9.1.5 Identify any deductibles or self-insured retentions for COUNTY's approval. The COUNTY retains the right to require CONTRACTOR

to reduce or eliminate such deductibles or self-insured retentions as they apply to COUNTY, or, require CONTRACTOR to provide a bond guaranteeing payment of all such retained losses and related costs, including, but not limited to, expenses or fees, or both, related to investigations, claims administrations, and legal defense. Such bond shall be executed by a corporate surety licensed to transact business in the State of California.

- 9.2 Insurer Financial Ratings: Insurance is to be provided by an insurance company acceptable to the COUNTY with an A.M. Best rating of not less than A:VII, unless otherwise approved by COUNTY.
- 9.3 Failure to Maintain Coverage: Failure by CONTRACTOR to maintain the required insurance, or to provide evidence of insurance coverage acceptable to COUNTY, shall constitute a material breach of the Contract upon which COUNTY may immediately terminate or suspend this Agreement. COUNTY, at its sole option, may obtain damages from CONTRACTOR resulting from said breach. Alternatively, COUNTY may purchase such required insurance coverage, and without further notice to CONTRACTOR, COUNTY may deduct from sums due to CONTRACTOR any premium costs advanced by COUNTY for such insurance.
- 9.4 Notification of Incidents, Claims or Suits: CONTRACTOR shall report to COUNTY:
 - 9.4.1 Any accident or incident relating to services performed under this Agreement which involves injury or property damage which may result in the filing of a claim or lawsuit against CONTRACTOR and/or COUNTY. Such report shall be made in writing within 24 hours of occurrence.
 - 9.4.2 Any third party claim or lawsuit filed against CONTRACTOR arising from or related to services performed by CONTRACTOR under this Agreement.
 - 9.4.3 Any injury to a CONTRACTOR employee which occurs on COUNTY property. This report shall be submitted on a "Non-Employee Injury Report" to the County Contract Manager.
 - 9.4.4 Any loss, disappearance, destruction, misuse, or theft of any kind whatsoever of COUNTY property, monies or securities entrusted to CONTRACTOR under the terms of this Agreement.
- 9.5 Compensation for COUNTY Costs: In the event that CONTRACTOR fails to comply with any of the indemnification or insurance requirements of this Agreement, and such failure to comply results in any costs to COUNTY,

CONTRACTOR shall pay full compensation for all costs incurred by COUNTY.

- 9.6 Insurance Coverage Requirements for Subcontractors: CONTRACTOR shall ensure any and all subcontractors performing services under this Agreement meet the insurance requirements of this Agreement by either:

9.6.1 CONTRACTOR providing evidence of insurance covering the activities of subcontractors, or

9.6.2 CONTRACTOR providing evidence submitted by subcontractors evidencing that subcontractors maintain the required insurance coverage. COUNTY retains the right to obtain copies of evidence of subcontractor insurance coverage at any time.

10.0 INSURANCE COVERAGE REQUIREMENTS:

- 10.1 General Liability insurance (written on ISO policy form CG 00 01 or its equivalent) with limits of not less than the following:

General Aggregate:	\$2 million
Products/Completed Operations Aggregate:	\$1 million
Personal and Advertising Injury:	\$1 million
Each Occurrence:	\$1 million

- 10.2 Automobile Liability insurance (written on ISO policy form CA 00 01 or its equivalent) with a limit of liability of not less than one million dollars (\$1,000,000) for each accident. Such insurance shall include coverage for all "owned," "hired" and "non-owned" vehicles, or coverage for "any auto."

- 10.3 Workers' Compensation and Employer's Liability insurance providing workers' compensation benefits, as required by the Labor Code of the State of California or by any other state, and for which CONTRACTOR is responsible. If CONTRACTOR's employees will be engaged in maritime employment, coverage shall provide workers' compensation benefits as required by the U.S. Longshore and Harbor Workers' Compensation Act, Jones Act or any other federal law for which CONTRACTOR is responsible.

In all cases, the above insurance also shall include Employers' Liability coverage with limits of not less than the following:

Each Accident:	\$1 million
Disease – policy limit:	\$1 million
Disease – each employee:	\$1 million

11.0 COMPLIANCE WITH LIVING WAGE PROGRAM

11.1 Living Wage Program

11.1.1 This Contract is subject to the provisions of the County's ordinance entitled Living Wage Program ("Program") as codified in Sections 2.201.010 through 2.201.100 of the Los Angeles County Code, a copy of which is attached hereto as Exhibit J, and incorporated by reference into and made a part of the Contract.

11.2 Payment of Living Wage Rates

11.2.1 Unless Contractor has demonstrated to the County's satisfaction either that Contractor is not an "Employer" as defined under the Program (Section 2.201.020 of the County Code) or that Contractor qualifies for an exception to the Program (Section 2.201.090 of the County Code), Contractor shall pay its Employees no less than the applicable hourly living wage rate, as set forth immediately below, for the Employees' services provided to the County under the Contract.

11.2.1.1 Not less than \$9.46 per hour if, in addition to the per-hour wage, Contractor contributes less than \$1.14 per hour towards the provision of bona fide health care benefits for its Employees and any dependents; or

11.2.1.2 Not less than \$8.32 per hour if, in addition to the per-hour wage, Contractor contributes at least \$1.14 per hour towards the provision of bona fide health care benefits for its Employees and any dependents. Contractor will be deemed to have contributed \$1.14 per hour towards the provision of bona fide health care benefits if the benefits are provided through the County Department of Health Services Community Health Plan. If, at any time during the Contract, Contractor contributes less than \$1.14 per hour towards the provision of bona fide health care benefits, Contractor shall be required to pay its Employees the higher hourly living wage rate.

11.2.2 For purposes of this Section, "Contractor" includes any subcontractor engaged by Contractor to perform services for the County under the Contract. If Contractor uses any subcontractor to perform services for the County under the Contract, the subcontractor shall be subject to the provisions of this Section. The

provisions of this Section shall be inserted into any such subcontract agreement and a copy of the Program shall be attached to the agreement. "Employee" means any individual who is an employee of Contractor under the laws of California, and who is providing full-time services to Contractor, some or all of which are provided to the County under the Contract. "Full-time" means a minimum of 40 hours worked per week, or a lesser number of hours, if the lesser number is a recognized industry standard and is approved as such by the County; however, fewer than 35 hours worked per week will not, in any event, be considered full time.

11.2.3 If Contractor is required to pay a living wage when the Contract commences, Contractor shall continue to pay a living wage for the entire term of the Contract, including any option period.

11.2.4 If Contractor is not required to pay a living wage when the Contract commences, Contractor shall have a continuing obligation to review the applicability of its "exemption status" from the living wage requirement, and Contractor shall immediately notify County if Contractor at any time either comes within the Program's definition of "Employer" or if Contractor no longer qualifies for an exception to the Program. In either event, Contractor shall immediately be required to commence paying the living wage and shall be obligated to pay the living wage for the remaining term of the Contract, including any option period. The County may also require, at any time during the Contract and at its sole discretion, that Contractor demonstrate to the County's satisfaction that Contractor either continues to remain outside of the Program's definition of "Employer" and/or that Contractor continues to qualify for an exception to the Program. Unless Contractor satisfies this requirement within the time frame permitted by the County, Contractor shall immediately be required to pay the living wage for the remaining term of the Contract, including any option period.

11.3 Contractor's Submittal of Certified Monitoring Reports.

Contractor shall submit to the County certified monitoring reports at a frequency instructed by the County. The certified monitoring reports shall list all of Contractor's Employees during the reporting period. The certified monitoring reports shall also verify the number of hours worked, the hourly wage rate paid, and the amount paid by Contractor for health benefits, if any, for each of its Employees. The certified monitoring reports shall also state the name and identification number of Contractor's current health care benefits plan, and Contractor's portion of the premiums paid as well as the portion paid by each Employee. All certified monitoring reports shall be submitted on forms provided by the County, or any other form

approved by the County which contains the above information. The County reserves the right to request any additional information it may deem necessary. If the County requests additional information, Contractor shall promptly provide such information. Contractor, through one of its officers, shall certify under penalty of perjury that the information contained in each certified monitoring report is true and accurate.

11.4 Contractor's Ongoing Obligation to Report Labor Law/Payroll Violations and Claims.

During the term of the contract, if the contractor becomes aware of any labor law/payroll violation or any complaint, investigation or proceeding ("claim") concerning any alleged labor law/payroll violation (including but not limited to any violation or claim pertaining to wages, hours and working conditions such as minimum wage, prevailing wage, living wage, the Fair Labor Standards Act, employment of minors, or unlawful employment discrimination), the contractor shall immediately inform the County of any pertinent facts known by the contractor regarding same. This disclosure obligation is not limited to any labor law/payroll violation or claim arising out of the contractor's contract with the County, but instead applies to any labor law/payroll violation or claim arising out of any of the contractor's operations in California.

11.5 County Auditing of Contractor Records.

Upon a minimum of twenty-four (24) hours' written notice, the County may audit, at Contractor's place of business, any of Contractor's records pertaining to the Contract, including all documents and information relating to the certified monitoring reports. Contractor is required to maintain all such records in California until the expiration of four years from the date of final payment under the Contract. Authorized agents of the County shall have access to all such records during normal business hours for the entire period that records are to be maintained.

11.6 Notifications to Employees.

Contractor shall place County-provided living wage posters at each of Contractor's place of business and locations where Contractor's Employees are working. Contractor shall also distribute County-provided notices to each of its Employees at least once per year. Contractor shall translate into Spanish and any other language spoken by a significant number of Employees the posters and hand outs.

11.7 Enforcement and Remedies.

11.7.1 If Contractor fails to comply with the requirements of this Section, the County shall have the rights and remedies described in this Section in addition to any rights and remedies provided by law or equity.

11.7.1.1 Remedies For Submission of Late or Incomplete Certified Monitoring Reports. If Contractor submits a certified monitoring report to the County after the date it is due or if the report submitted does not contain all of the required information or is inaccurate or is not properly certified, any such deficiency shall constitute a breach of the Contract. In the event of any such breach, the County may, in its sole discretion, exercise any or all of the following rights/remedies:

11.7.1.1.1 Withholding of Payment. If Contractor fails to submit accurate, complete, timely and properly certified monitoring reports, the County may withhold from payment to Contractor up to the full amount of any invoice that would otherwise be due, until Contractor has satisfied the concerns of the County, which may include required submittal of revised certified monitoring reports or additional supporting documentation.

11.7.1.1.2 Liquidated Damages. It is mutually understood and agreed that Contractor's failure to submit an accurate, complete, timely and properly certified monitoring report will result in damages being sustained by the County. It is also understood and agreed that the nature and amount of the damages will be extremely difficult and impractical to fix; that the liquidated damages set forth herein are the nearest and most exact measure of damages for such breach that can be fixed at this time; and that the liquidated damages are not intended as a penalty or forfeiture for Contractor's breach. Therefore, in the event that a certified monitoring report is deficient, including but not limited to being late, inaccurate, incomplete or uncertified, it is agreed that the County may, in its sole discretion, assess against Contractor liquidated damages in the amount of \$100 per monitoring report for each day until the County has been provided with a properly prepared, complete and certified monitoring report. The County may

deduct any assessed liquidated damages from any payments otherwise due Contractor.

11.7.1.1.3 Termination. Contractor's failure to submit an accurate, complete, timely and properly certified monitoring report may constitute a material breach of the Contract. In the event of such material breach, County may, in its sole discretion, terminate the Contract.

11.7.2 Remedies for Payment of Less Than the Required Living Wage. If Contractor fails to pay any Employee at least the applicable hourly living wage rate, such deficiency shall constitute a breach of the Contract. In the event of any such breach, the County may, in its sole discretion, exercise any or all of the following rights/remedies:

11.7.2.1 Withholding Payment. If Contractor fails to pay one or more of its Employees at least the applicable hourly living wage rate, the County may withhold from any payment otherwise due Contractor the aggregate difference between the living wage amounts Contractor was required to pay its Employees for a given pay period and the amount actually paid to the Employees for that pay period. The County may withhold said amount until Contractor has satisfied the County that any underpayment has been cured, which may include required submittal of revised certified monitoring reports or additional supporting documentation.

11.7.2.2 Liquidated Damages. It is mutually understood and agreed that Contractor's failure to pay any of its Employees at least the applicable hourly living wage rate will result in damages being sustained by the County. It is also understood and agreed that the nature and amount of the damages will be extremely difficult and impractical to fix; that the liquidated damages set forth herein are the nearest and most exact measure of damages for such breach that can be fixed at this time; and that the liquidated damages are not intended as a penalty or forfeiture for Contractor's breach. Therefore, it is agreed that the County may, in its sole discretion, assess against Contractor liquidated damages of \$50 per Employee per day for each and every instance of an underpayment to an Employee. The County may deduct any assessed liquidated damages from any payments otherwise due Contractor.

11.7.2.3 Termination. Contractor's failure to pay any of its Employees the applicable hourly living wage rate may constitute a material breach of the Contract. In the event of such material breach, County may, in its sole discretion, terminate the Contract.

11.7.3 Debarment. In the event Contractor breaches a requirement of this Section, the County may, in its sole discretion, bar Contractor from the award of future County contracts for a period of time consistent with the seriousness of the breach, not to exceed three years.

11.8 Use of Full-Time Employees.

Contractor shall assign and use full-time employees of Contractor to provide services under the Contract unless Contractor can demonstrate to the satisfaction of the County that it is necessary to use non-full-time employees based on staffing efficiency or County requirements for the work to be performed under the Contract. It is understood and agreed that Contractor shall not, under any circumstance, use non-full-time employees for services provided under the Contract unless and until the County has provided written authorization for the use of same. Contractor submitted with its proposal a full time employee staffing plan. If Contractor changes its full time employee staffing plan, Contractor shall immediately provide a copy of the new staffing plan to the County.

11.9 Contractor Retaliation Prohibited.

11.9.1 Contractor and/or its employees shall not take any adverse action which would result in the loss of any benefit of employment, any contract benefit, or any statutory benefit for any employee, person or entity who has reported a violation of the Program to the County or to any other public or private agency, entity or person. A violation of the provisions of this paragraph may constitute a material breach of the Contract. In the event of such material breach, County may, in its sole discretion, terminate the Contract.

11.10 Contractor Standards.

During the term of the Contract, Contractor shall maintain business stability, integrity in employee relations and the financial ability to pay a living wage to its employees. If requested to do so by the County, Contractor shall demonstrate to the satisfaction of the County that Contractor is complying with this requirement.

11.10 Neutrality in Labor Relations

Contractor shall not use any consideration received under the Contract to hinder, or to further, organization of, or collective bargaining activities by or on behalf of Contractor's employees, except that this restriction shall not apply to any expenditure made in the course of good faith collective bargaining, or to any expenditure pursuant to obligations incurred under a bona fide collective bargaining agreement, or which would otherwise be permitted under the provisions of the National Labor Relations Act.

12.0 NOTICES

12.1 All notices shall be given in writing by enclosing the same in a sealed envelope addressed to the intended party and by depositing such envelope with postage prepaid in the United States Post Office or any substation or public letterbox. All notices to COUNTY shall be sent in duplicate addressed to the following:

Anita M. Bock, Director
Department of Children and Family Services
425 Shatto Place
Los Angeles, California 90020
Attention: Contract Administrator
Contract Management Services

All notices to CONTRACTOR shall be sent to CONTRACTOR

First Choice Messenger, Inc.
3225 Fletcher Drive
Los Angeles, CA 90065
Attention: Cal Mejia, General Manager

OR

Such other place as may hereinafter be designated in writing by the CONTRACTOR.

12.2 All Notices may also be given upon personal delivery to any person whose actual knowledge would be sufficient notice to CONTRACTOR. Further, it is expressly understood that actual knowledge of an individual CONTRACTOR or of a co-partner, or if the CONTRACTOR is a corporation, of an officer or member of the corporation, or by the managing agent regularly in charge of the work on behalf of CONTRACTOR, shall in any case be sufficient notice.

12.3 CONTRACTOR shall notify COUNTY as provided in Section 12.1 when expenditures under this Agreement total seventy-five percent (75%) of the Maximum Contract Sum. CONTRACTOR shall also notify COUNTY as provided in Section 12.1 when the Agreement is within six (6) months of expiration.

13.0 CHANGES AND AMENDMENTS

The COUNTY reserves the right to change any portion of the work required under this Agreement, or make amendment to such other terms and conditions as may become necessary and reasonable. Any such revisions shall be accomplished in the following manner:

13.1 For any change which does not affect the period of performance, Maximum Contract Sum, Maximum Annual Contract Sum or payments, and which does not materially alter any term or condition included in this Agreement, an amendment shall be prepared, and signed by CONTRACTOR and the Director. Approval of County Counsel and the Chief Administrative Office must be obtained for any changes which affect the scope of work.

13.2 For any change which affects the period of performance, Maximum Contract Sum, Maximum Annual Contract Sum or payments, or which materially alters any other term or condition in this Agreement, a written amendment shall be prepared, signed by the CONTRACTOR, and thereafter submitted to County's Board of Supervisors for consideration and, if approved, execution.

13.3 For purposes of Sections 13.1 and 13.2, a change materially alters a term or condition included in this Agreement if it: (1) is significant as to price, quantity, quality or delivery when contrasted with the total costs or scope of the services being procured; (2) alters minimum requirements for prospective bidders, proposers or negotiating entities for this Agreement; or (3) would result in a change in the Maximum Contract Sum set forth in Section 4 of this Agreement.

13.4 Notwithstanding the provisions of Sections 13.1 and 13.2, County's DCFS Director may, without further action by County's Board of Supervisors, prepare and sign amendments to this Agreement which increase payments to CONTRACTOR which are commensurate with increases in the units of service being provided under this Agreement under the following conditions.

13.4.1 COUNTY's total payments to CONTRACTOR shall not increase more than ten percent (10%) per year and in the aggregate above the original Maximum Contract Sum during the term of this Agreement.

13.4.2 County's Board of Supervisors has appropriated sufficient funds for all changes described in each such amendment to this Agreement.

13.4.3 Approval of County Counsel and the Chief Administrative Officer is obtained prior to any such amendment to this Agreement; and

13.4.4 The Director shall notify County's Board of Supervisors, Chief Administrative Officer, and County Counsel of all Agreement changes, in writing, within fifteen (15) days following execution of such amendment.

14.0 ASSIGNMENT/DELEGATION OF RIGHTS

14.1 CONTRACTOR shall not assign its rights or delegate its duties hereunder, either in whole or in part, without the prior written consent of the Los Angeles County Board of Supervisors or the Director in the event the Director has the delegated authority to consent. Any attempted assignment and/or delegation without said consent shall constitute a default under Section 23.0, Events of Default herein and shall be null and void, subject to waiver by COUNTY. If Contractor is a corporation, partnership, limited liability company or other entity, then an assignment requiring COUNTY's consent hereunder shall also include any sale, exchange, assignment, divestment or change in members, directors or officers giving majority control of CONTRACTOR to any person(s) or legal entity other than the majority in control of CONTRACTOR at the time of execution of this Agreement. Any payments by COUNTY to CONTRACTOR or its assignee, or acceptance of any payments by COUNTY from CONTRACTOR or its assignee on any claim under this Agreement shall not waive or constitute such COUNTY consent.

14.2 Upon assignment and/or delegation, each and all of the provisions, agreements, terms, covenants and conditions herein contained, to be performed by CONTRACTOR, shall be binding upon both CONTRACTOR and upon any assignee/delegate thereof.

- 14.3 COUNTY's consent may be reasonably withheld if, among other things, the proposed assignee fails to meet the requirements for contracting satisfied by the original CONTRACTOR and/or the then current COUNTY or State contracting requirements for this or similar agreements. COUNTY may require, as a condition to its consent to assignment, that the assignee enter into an agreement utilizing then current standard COUNTY documentation for this or similar agreements.
- 14.4 Any payments by COUNTY to any delegatee or assignee on any claim under this Agreement shall reduce dollar for dollar any claims which CONTRACTOR may have against COUNTY and shall be subject to set-off, recoupment, or other reduction for any claims which COUNTY may have against CONTRACTOR, whether under this Agreement or otherwise.

15.0 SUBCONTRACTING

- 15.1 No performance of this Agreement or any portion thereof may be subcontracted by CONTRACTOR without the express written authority of County DCFS Director. Any attempt by CONTRACTOR to subcontract performance of any of the terms of this Agreement, in whole or in part, without said consent shall be null and void and shall constitute a breach of the terms of this Agreement. In the event of such a breach, this Agreement may be terminated forthwith. CONTRACTOR shall submit each subcontract to the COUNTY for written approval prior to subcontractor performing any work hereunder.
- 15.2 All of the provisions of this Agreement and any Amendment(s) hereto shall extend to and be binding upon subcontractors, provided that assignment or delegation of rights under a subcontract by subcontractors shall not require COUNTY approval. The CONTRACTOR shall include in all subcontracts the following provision: "This Agreement is a subcontract under the terms of a prime contract with the County of Los Angeles. All representations and warranties contained in this subcontract shall inure to the benefit of the County of Los Angeles."
- 15.3 CONTRACTOR shall indemnify and hold COUNTY harmless from any and all liability arising or resulting from the use of any subcontractor and its employees in the same manner and to the same extent that CONTRACTOR indemnifies COUNTY from any and all liability arising from or resulting from the actions or omissions of its own employees.
- 15.4 CONTRACTOR shall obtain the following from each subcontractor before any subcontractor employee may perform any work under any subcontract to this Agreement. CONTRACTOR shall maintain and make available upon request of Program Manager all the following documents:

- 15.4.1 An executed Employee Acknowledgment and Confidentiality Agreement (see Exhibit G) executed by each subcontractor and each of subcontractor's employees approved to perform work hereunder.
 - 15.4.2 Certificates of Insurance which establish that the subcontractor maintains all the programs of insurance required by Section 9.0 of this Agreement (Insurance), and
 - 15.4.3 The Tax Identification Number of the subcontracting agency to be placed on the signature page of the subcontract. This Tax Identification Number shall not be identical to the CONTRACTOR's Tax Identification Number.
- 15.5 CONTRACTOR shall provide County's Program Manager with copies of all executed subcontracts.
- 15.6 No subcontract shall alter in any way any legal responsibility of CONTRACTOR to COUNTY. CONTRACTOR shall remain responsible for any and all performance required of it under this Agreement, including, but not limited to, the obligation to properly supervise, coordinate, and perform all work required hereunder.
- 15.7 Notwithstanding any other provision of this Agreement, the parties do not in any way intend that any person or entity shall acquire any rights as a third party beneficiary of this Agreement.
- 15.8 CONTRACTOR shall be solely liable and accountable for any and all payments and other compensation to all subcontractor's engaged hereunder and their officers, employees, and agents. COUNTY shall have no liability or responsibility whatsoever for any payment or other compensation for any subcontractor or their officers, employees, and agents,

16.0 INDEPENDENT CONTRACTOR STATUS

This Agreement is by and between the COUNTY and CONTRACTOR and is not intended, and shall not be construed, to create the relationship of agent, servant, employee, partnership, joint venture or association, as between COUNTY and CONTRACTOR. CONTRACTOR understands and agrees that all persons furnishing services to COUNTY pursuant to this Agreement are, for purposes of Workers' Compensation liability, employees solely of CONTRACTOR and not of COUNTY. CONTRACTOR shall bear the sole responsibility and liability for furnishing Workers' Compensation benefits to any person for injuries arising from or connected with service to COUNTY provided pursuant to this Agreement.

17.0 COVENANT AGAINST CONTINGENT FEES

17.1 CONTRACTOR warrants that no person or selling agency has been employed or retained to solicit or secure this Agreement for either a flat fee, a percentage commission or any other form or remuneration.

17.2 For breach or violation of this covenant, COUNTY shall have the right to terminate this Agreement and/or, at its sole discretion, require the CONTRACTOR to repay any funds converted to such use prior to any payment for past work or performance of any future work.

18.0 DISCLOSURE OF INFORMATION

18.1 The CONTRACTOR shall not disclose any details in connection with this Agreement to any party, except as may be otherwise provided herein or required by law. However, in recognizing the CONTRACTOR's need to identify its services and related clients to sustain itself, the COUNTY shall not inhibit the CONTRACTOR from publicizing its role under this Agreement within the following conditions:

18.1.1 CONTRACTOR shall develop all publicity material in a professional manner.

18.1.2 During the course of performance of this Agreement, the CONTRACTOR, its employees, agents, and subcontractors shall not publish or disseminate commercial advertisements, press releases, opinions or feature articles, using the name of the COUNTY without the prior written consent of the COUNTY. Said consent shall not be unreasonably withheld, and approval by the

COUNTY may be assumed in the event no adverse comments are received in writing two (2) weeks after submittal.

18.1.3 CONTRACTOR may, without prior written permission of COUNTY, indicate in its proposals and sales material that it has been awarded a contract to provide services, provided, however, that the requirements of this provision shall apply.

19.0 COMPLIANCE WITH APPLICABLE LAWS

- 19.1 CONTRACTOR shall conform to and abide by all applicable Municipal, County, State and Federal laws and regulations, court rules, and ordinances, insofar as the same or any of them are applicable. This includes compliance with mandatory standards and policies relating to energy efficiency in the State Energy Conservation Plan (Title 24, California Administrative Code) and compliance with Section 306 of the Clean Air Act (42 USC 1857(h)), Section 508 of the Clean Water Act (33 USC 1368), Executive Order 11738 and Environmental Protection Agency regulations (40 CFR Part 15). Insofar as permits and/or licenses are required for the prescribed services and/or any construction authorized herein, the same must be obtained from the regulatory agency having jurisdiction there over.
- 19.2 Failure by CONTRACTOR to comply with such laws and regulations shall be a material breach of this Agreement and may result in termination of this Agreement.
- 19.3 CONTRACTOR agrees to indemnify and hold COUNTY harmless from any loss, damage or liability resulting from a violation on the part of the CONTRACTOR, its employees, agents or subcontractors of such laws, regulations, rules, policies, standards or ordinances as described in Section 19.1.

20.0 COMPLIANCE WITH CIVIL RIGHTS LAWS

CONTRACTOR hereby assures that it will comply with Title VI of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, the Age Discrimination Act of 1975, Title IX of the Education Amendments of 1973, where applicable, and Title 43, Part 17 of the Code of Federal Regulations Subparts A and B, to the end that no persons shall on the grounds of race, creed, color, national origin, political affiliation, marital status, sex, age, or handicap be subjected to discrimination under the privileges and use granted by this Agreement or under any project, program or activity supported by this Agreement.

21.0 NON-DISCRIMINATION IN EMPLOYMENT

- 21.1 CONTRACTOR certifies and agrees that all persons under its employ, its affiliates, subsidiaries, or holding companies, are and will be treated equally by it without regard to or because of race, religion, color, national origin, political affiliation, marital status, sex, age, or handicap, in compliance with all applicable Federal and State non-discrimination laws and regulations. This includes compliance with Executive Order 11246 entitled "Equal

Employment Opportunity,” Executive Order 11375 and as supplemented in the Department of Labor Regulations (41 CFR Part 60).

- 21.2 CONTRACTOR shall take affirmative action to ensure that qualified applicants are employed and that employees are treated during employment without regard to race, religion, color, national origin, political affiliation, marital status, sex, age, or handicap. Such action shall include but is not limited to the following: employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation and selection for training, including apprenticeship.
- 21.3 CONTRACTOR shall deal with its subcontractors, bidders, or vendors without regard to or because of race, religion, color, national origin, political affiliation, marital status, sex, age, or handicap.
- 21.4 CONTRACTOR shall provide access for COUNTY’s representatives to inspect CONTRACTOR’s employment records during regular business hours in order to verify compliance with the provisions of this section when so requested by COUNTY.
- 21.5 If COUNTY finds that any of the above provisions have been violated, the same shall constitute a material breach of contract upon which COUNTY may determine to terminate this Agreement. COUNTY reserves the right to determine independently whether the non-discrimination provisions of this Agreement have been violated. In addition, a determination by the California Fair Employment Opportunity Commission that CONTRACTOR has violated State or Federal non-discrimination laws or regulations shall constitute a finding by COUNTY that CONTRACTOR has violated the non-discrimination provisions of this Agreement.
- 21.6 The parties agree that in the event CONTRACTOR violates the non-discrimination provisions of this Agreement, COUNTY shall, at its option, be entitled to a sum of Five Hundred Dollars (\$500.00) pursuant to California Civil Code Section 1671 as liquidated damages in lieu of terminating this Agreement.

22.0 CLIENT GRIEVANCES

CONTRACTOR shall establish a written procedure to resolve client grievances. At the request of County’s Program Manager, CONTRACTOR shall submit such procedures to COUNTY within five (5) calendar days from date of the request.

23.0 EVENTS OF DEFAULT

23.1 Default for Non-Performance

COUNTY may terminate the whole or any part of this Agreement if either of the following circumstances exist:

23.1.1 CONTRACTOR has made a misrepresentation of any required element in the bid/proposal submitted in response to the Invitation for Bids/Request for Proposals, if any, or

23.1.2 CONTRACTOR fails to comply with or perform any provision of this Agreement or fails to make progress so as to endanger performance of any term of this Agreement.

23.2 Default for Insolvency

COUNTY may terminate this Agreement for default for insolvency in the event of the occurrence of any of the following:

23.2.1 Insolvency of CONTRACTOR. CONTRACTOR shall be deemed insolvent if it has ceased to pay its debts in the ordinary course of business or cannot pay its debts as they become due, whether it has filed for bankruptcy or not, and whether insolvent within the meaning of the Federal Bankruptcy Law or not;

23.2.2 The filing of a voluntary petition in bankruptcy;

23.2.3 The appointment of a Receiver or Trustee for CONTRACTOR.

23.2.4 The execution by CONTRACTOR of an assignment for the benefit of creditors.

23.3 Other Events of Default

Determination by the COUNTY, the State Fair Employment Commission, or the Federal Equal Employment Opportunity Commission of discrimination having been practiced by CONTRACTOR in violation of State and/or Federal laws thereon.

24.0 TERMINATION FOR DEFAULT

24.1 Upon determining the existence of any one or more of the circumstances heretofore described in Section 23, Events of Default, this Agreement may be subject to termination either immediately or within such longer time period as noticed by COUNTY.

24.2 In the event COUNTY terminates this Agreement in whole or in part as provided in this Agreement, COUNTY may procure, upon such terms and in such manner as COUNTY may deem appropriate, services similar to those previously provided by CONTRACTOR. Any excess cost, as determined by the COUNTY, arising from procurement of services under this Section 24.2, over and above the Contract sum, shall be charged against the CONTRACTOR and/or its sureties.

24.3 The remedies reserved to COUNTY herein shall be cumulative and in addition to any other remedies provided in law or equity.

24.4 In the event that, following services of the Notice of Termination of this Agreement under the provisions of this Agreement, it is determined for any reason that CONTRACTOR was not in default under the provisions of this Agreement or that the default was excusable under provisions of this Agreement, a correction of the Notice of Termination shall be issued, and the rights and obligations of the parties shall be the same as if the Notice of Termination had not been issued.

25.0 TERMINATION FOR IMPROPER CONSIDERATION

25.1 COUNTY may, by written notice to CONTRACTOR, immediately terminate the right of CONTRACTOR to proceed under this Agreement if it is found that consideration, in any form, was offered or given by CONTRACTOR, either directly or through an intermediary, to any COUNTY officer, employee or agent with the intent of securing the Agreement or securing favorable treatment with respect to the award, amendment or extension of the Agreement or the making of any determinations with respect to the CONTRACTOR's performance pursuant to the Agreement. In the event of such termination, COUNTY shall be entitled to pursue the same remedies against CONTRACTOR as it could pursue in the event of a default by the CONTRACTOR.

25.2 CONTRACTOR shall immediately report any attempt by a COUNTY officer or employee to solicit such improper consideration. The report shall be made either to the COUNTY manager charged with the supervision of the employee or to the COUNTY Auditor-Controller's Employee Fraud Hotline at (213) 974-0914 or (800) 544-6861.

25.3 Among other items, such improper consideration may take the form of cash, discounts, service, the provision of travel or entertainment, or tangible gifts.

26.0 TERMINATION FOR CONVENIENCE

26.1 The performance of services under this Agreement may be terminated in whole or part when such action is deemed by COUNTY to be in its best

interest. Termination of services hereunder shall be effected by delivery to CONTRACTOR of a thirty (30) day advance notice of termination specifying the extent to which performance of services under this Agreement is terminated and the date upon which such termination becomes effective.

26.2 After receipt of a notice of termination and except as otherwise directed by COUNTY, the CONTRACTOR shall:

26.2.1 Stop services under this Agreement on the effective date of termination.

26.2.2 To the extent possible, continue to, as required by this Agreement perform until the effective date of termination.

26.3 After receipt of a notice of termination, CONTRACTOR shall submit to COUNTY in the form and with the certification as may be prescribed by COUNTY, its termination claim and invoice. Such claim and invoice shall be submitted promptly. COUNTY will not accept any such invoice submitted later than three (3) months from the effective date of termination. Upon failure of CONTRACTOR to submit its termination claim and invoice within the time allowed, COUNTY may determine, on the basis of information available to COUNTY, the amount, if any, due to CONTRACTOR in respect to the termination, and such determination shall be final. After such determination is made, COUNTY shall pay CONTRACTOR the amount so determined as full and complete satisfaction of all amounts due CONTRACTOR under this Agreement for any terminated services.

26.4 Subject to the provisions of Section 26.3 above, COUNTY and CONTRACTOR shall make a good faith attempt to agree upon an amount due to CONTRACTOR for any terminated services following the total or partial termination of services pursuant to this Agreement. If after a good faith effort, an amount due CONTRACTOR is not agreed upon, COUNTY shall determine the amount due CONTRACTOR by assessing the contract value for similar services provided herein to all documented services, which CONTRACTOR or its subcontractor(s) has satisfactorily provided. COUNTY shall pay the agreed upon or determined amount, provided that such amount shall not exceed the Maximum Contract Sum under this Agreement as reduced by the amount of payments otherwise made and as further reduced by the amount potentially due for services not terminated.

27.0 DETERMINATION OF CONTRACTOR NON-RESPONSIBILITY AND CONTRACTOR DEBARMENT

27.1 Contractor Responsibility and Debarment

- 27.1.1 A responsible Contractor is a Contractor who has demonstrated the attribute of trustworthiness, as well as quality, fitness, capacity and experience to satisfactorily perform the contract. It is the COUNTY's policy to conduct business only with responsible Contractors.
- 27.1.2 The CONTRACTOR is hereby notified that, in accordance with Chapter 2.202 of the County Code, if the COUNTY acquires information concerning the performance of the CONTRACTOR on this or other contracts which indicates that the CONTRACTOR is not responsible, the COUNTY may, in addition to other remedies provided in the Contract, debar the CONTRACTOR from bidding on COUNTY contracts for a specified period of time not to exceed three years, and terminate any or all existing contracts the CONTRACTOR may have with the COUNTY.
- 27.1.3 The COUNTY may debar the CONTRACTOR if the Board of Supervisors finds, in its discretion, that the CONTRACTOR has done any of the following: (1) violated any term of a contract with the COUNTY; (2) committed any act or omission which negatively reflects on the CONTRACTOR's quality, fitness or capacity to perform a contract with the COUNTY or any other public entity, or engaged in a pattern or practice which negatively reflects on same; (3) committed an act or offense which indicates a lack of business integrity or business honesty; or (4) made or submitted a false claim against the COUNTY or any other public entity.
- 27.1.4 If there is evidence that the CONTRACTOR may be subject to debarment, the Department will notify the CONTRACTOR in writing of the evidence which is the basis for the proposed debarment and will advise the CONTRACTOR of the scheduled date for a debarment hearing before the Contractor Hearing Board.
- 27.1.5 The Contractor Hearing Board will conduct a hearing where evidence on the proposed debarment is presented. The CONTRACTOR and/or the CONTRACTOR's representative shall be given an opportunity to submit evidence at that hearing. After the hearing, the Contractor Hearing Board shall prepare a proposed decision, which shall contain a recommendation regarding whether the CONTRACTOR should be debarred, and, if so, the appropriate length of time of the debarment. If the CONTRACTOR fails to avail itself of the opportunity to submit evidence to the Contractor Hearing Board, the CONTRACTOR may be deemed to have waived all rights of appeal.

27.1.6 A record of the hearing, the proposed decision and any other recommendation of the Contractor Hearing Board shall be presented to the Board of Supervisors. The Board of Supervisors shall have the right to modify, deny or adopt the proposed decision and recommendation of the Hearing Board.

27.1.7 These terms shall also apply to subcontractors of COUNTY Contractors.

28.0 LIMITATION OF COUNTY'S OBLIGATION DUE TO NON-APPROPRIATION OF FUNDS

28.1 COUNTY's obligation is payable only and solely from funds appropriated for the purpose of this Agreement.

28.2 All funds for payment are conditioned upon the County Board of Supervisors' appropriation of sufficient funds for this purpose. Payments during subsequent fiscal year periods are dependent upon similar Board of Supervisors' action.

28.3 In the event the County Board of Supervisors does not allocate sufficient funds for the next succeeding fiscal year to meet the CONTRACTOR's anticipated obligations to providers under contracts, then services may be: (1) terminated in their entirety; or (2) reduced in accordance with available funding as deemed necessary by the COUNTY. COUNTY shall notify CONTRACTOR in writing of any such non-allocation of funds at the earliest possible date.

29.0 CONFLICT OF INTEREST

29.1 No COUNTY employee whose position in COUNTY enables such employee to influence the award or administration of this Agreement or any competing Agreement, and no spouse or economic dependent of such employee, shall be employed in any capacity by CONTRACTOR herein, or have any other direct or indirect financial interest in this Agreement. No officer or employee of COUNTY who may financially benefit from the provision of services hereunder shall in any way participate in COUNTY's approval, or ongoing evaluation of such services, or in any way attempt to unlawfully influence COUNTY's approval or ongoing evaluation of such services.

29.2 CONTRACTOR shall comply with all conflict of interest laws, ordinances, and regulations now in effect or hereafter to be enacted during the term of this Agreement. CONTRACTOR warrants that it is not now aware of any facts which created a conflict of interest. If CONTRACTOR hereafter becomes aware of any facts which might reasonably be expected to create a conflict of interest, it shall immediately make full written disclosure of such

facts to COUNTY. Full written disclosure shall include, without limitation, identification of all persons implicated, and complete description of all relevant circumstances.

30.0 EMPLOYEE BENEFITS AND TAXES

30.1 CONTRACTOR shall be solely responsible for providing to, or on behalf of its employees, all legally required salaries, wages, benefits, or other compensation.

30.2 COUNTY shall have no liability or responsibility for any taxes, including, without limitation, sales, income, employee withholding and/or property taxes which may be imposed in connection with or resulting from this Agreement or CONTRACTOR's performance hereunder.

31.0 NOTICE TO EMPLOYEES REGARDING THE FEDERAL EARNED INCOME CREDIT

CONTRACTOR shall notify its employees and shall require each subcontractor to notify its employees, that they may be eligible for the Federal Earned Income Credit under the federal income tax laws. Such notice shall be provided in accordance with the requirements set forth in Internal Revenue Services Notice 1015 (Attachment II.)

32.0 CONFIDENTIALITY

CONTRACTOR shall maintain the confidentiality of all records, including but not limited to COUNTY records and client records in accordance with all applicable federal, state and local laws, regulations, ordinances and directives regarding confidentiality. CONTRACTOR shall inform all of its officers, employees and agents providing services hereunder of the confidentiality provisions of this Agreement. All employees of CONTRACTOR who have access to confidential records and data must sign and adhere to the attached "Employee Acknowledgment and Confidentiality Agreement", Exhibit G. CONTRACTOR shall notify COUNTY of any attempt to obtain confidential records through the legal process.

33.0 CONTRACT ENFORCEMENT, QUALITY ASSURANCE PLAN, MONITORING, AND REVIEW

33.1 The Director shall be responsible for the enforcement of this Agreement on behalf of COUNTY and shall be assisted therein by those officers and employees of COUNTY having duties in connection with the administration thereof. Director hereby reserves the right to assign such personnel as are needed to serve as Program Manager in order to inspect and review

CONTRACTOR's performance of and compliance with all contractual services, duties, obligations, responsibilities, administrative procedures and staffing as set forth in this Agreement.

33.2 CONTRACTOR hereby agrees to cooperate with the Director, Program Manager, and any duly authorized State or Federal government representative, in the review and monitoring of CONTRACTOR's program, records and procedures at any reasonable time.

33.3 The COUNTY or its agent will evaluate CONTRACTOR's performance under this Agreement on not less than an annual basis. Such evaluation will include assessing CONTRACTOR's compliance with all contract terms and performance standards. CONTRACTOR deficiencies which COUNTY determines are severe or continuing and that may place performance of the Agreement in jeopardy if not corrected will be reported to the Board of Supervisors. The report will include improvement/corrective action measures taken by the COUNTY and CONTRACTOR. If improvement does not occur consistent with the corrective action measures, COUNTY may terminate this Agreement or impose other penalties as specified in this Agreement.

33.4 At the request of COUNTY, CONTRACTOR, or its appropriate representative, shall attend meetings and/or training sessions, as determined by COUNTY.

33.5 CONTRACTOR shall prepare and submit to County's Program Manager a written semi-annual report describing the services provided throughout each Fiscal Year. The CONTRACTOR's semi-annual report shall include, but not be limited to:

33.5.1 Description of services and/or deliverables rendered during the period, dollar amount of services rendered during the period, dollar balance remaining under the Agreement, and any difficulties encountered that could jeopardize the completion of the project or milestones or deliverables within the schedule.

34.0 EMPLOYMENT ELIGIBILITY VERIFICATION

CONTRACTOR warrants that it fully complies with all Federal statutes and regulations regarding employment of aliens and others, and that all its employees performing services hereunder meet the citizenship or alien status requirements contained in Federal statutes and regulations. CONTRACTOR shall obtain, from all covered employees performing services hereunder, all verification and other documentation of employment eligibility status required by Federal statutes and regulations as they currently exist and as they may be hereafter amended. CONTRACTOR shall retain such documentation of all covered employees for the

period prescribed by law. CONTRACTOR shall indemnify, defend, and hold harmless, the COUNTY, its officers and employees from employer sanctions and any other liability which may be assessed against CONTRACTOR or COUNTY in connection with any alleged violation of Federal statutes or regulations pertaining to the eligibility for employment of persons performing services under this Agreement.

35.0 CRIMINAL CLEARANCES

35.1 For the safety and welfare of the children to be served under this Agreement, CONTRACTOR agrees, as permitted by law, to ascertain arrest and conviction records for all current and prospective employees, independent CONTRACTORS, volunteers or subcontractors who may come in contact with children in the course of their work, volunteer activity or performance of the subcontract and shall maintain such records in the file of each such person.

35.2 CONTRACTOR shall immediately notify COUNTY of any arrest and/or subsequent conviction, other than for minor traffic offenses, of any employee, independent CONTRACTOR, volunteer staff or subcontractor who may come in contact with children while providing services under this Agreement when such information becomes known to CONTRACTOR.

35.3 CONTRACTOR agrees not to engage or continue to engage the services of any person convicted of any crime involving harm to children, or any crime involving conduct inimical to the health, morals, welfare or safety of others, including but not limited to the offenses specified in Health and Safety Code, Section 11590 (offenses requiring registration as a controlled substance offender) and those defined in the following Penal Code Sections or any other existing or future Penal Code sections which address such crimes:

SECTION	TITLE
220	Assault with intent to commit mayhem, rape, unlawful sodomy, unlawful oral copulation, rape in concert with another, lascivious acts upon a child, or forcible acts of sexual penetration
243.4	Sexual battery
245	Assault with a deadly weapon or force likely to produce great bodily injury
261.5	Unlawful sexual intercourse with a minor.
264.1	Voluntary acting in concert with another person,

	by force or violence and against the will of the victim, committed rape, rape of spouse or forcible act of sexual penetration either personally or by aiding and abetting the other person
272	Causing, encouraging or contributing to delinquency of person under age 18.
273a	Great bodily harm or death to child; endangerment of person or health.
273ab	Assault resulting in death of child under 8 years of age.
273d	Infliction of corporal punishment or injury on child resulting in traumatic condition.
273g	Degrading, immoral or vicious practices in the presence of children.
273.5	Infliction of corporal punishment or injury on spouse, former spouse, cohabitant, former cohabitant or the mother or father of his or her child resulting in traumatic condition
286	Sodomy.
288	Lewd or lascivious acts upon the body of a child under age 14.
288a	Oral copulation.
289	Forcible acts of sexual penetration against the victim's will
290	Sex offenders required to register with the chief of police, sheriff or police of a campus of University of California, California State University or community college
314	Indecent exposure.
368(b)	Great bodily harm or death to elder or dependent adult; Endangerment of person or health or elder or dependent adult

647 (a) & (d)	Disorderly conduct relating to lewd/behavior/prostitution.
647.6	Annoyance of or molesting a child under age 18.
667.5(c)	Violent felony

36.0 CHILD SUPPORT COMPLIANCE PROGRAM

36.1 CONTRACTOR's Warranty of Adherence to County's Child Support Compliance Program:

CONTRACTOR acknowledges that COUNTY has established a goal of ensuring that all individuals who benefit financially from COUNTY through contract are in compliance with their court-ordered child, family and spousal support obligations in order to mitigate the economic burden otherwise imposed upon COUNTY and its taxpayers.

As required by County's Child Support Compliance Program (County Code Chapter 2.200) and without limiting CONTRACTOR's duty under this Contract to comply with all applicable provisions of law, CONTRACTOR warrants that it is now in compliance and shall during the term of this Contract maintain compliance with employment and wage reporting requirements as required by the Federal Social Security Act (42 USC Section 653a) and California Unemployment Insurance Code Section 1088.5, and shall implement all lawfully served Wage and Earnings Withholding Orders or District Attorney Notice of Wage and Earnings Assignment for Child and Spousal Support, pursuant to Code of Civil Procedure Section 706.031 and Family Code Section 5246(b).

36.2 Termination for Breach of Warranty to Maintain Compliance with County's Child Support Compliance Program:

36.2.1 Failure of CONTRACTOR to maintain compliance with the requirements set forth in Section 37.0 "Contractor's Warranty of Adherence to County's Child Support Compliance Program" shall constitute a default by CONTRACTOR under this Contract. Without limiting the rights and remedies available to COUNTY under any other provision of this Contract, failure to cure such default within ninety (90) days of notice by the Los Angeles County District Attorney shall be grounds upon which the County Board of Supervisors may terminate this Contract pursuant to Section 24.0, "Termination for Default."

36.3 CONTRACTOR's Acknowledgment of COUNTY's Commitment to Child Support Enforcement.

CONTRACTOR acknowledges that COUNTY places a high priority on enforcement of child support laws and the apprehension of child support evaders. CONTRACTOR understands that it is COUNTY's policy to encourage all COUNTY contractors to voluntarily post COUNTY's "L.A.'s Most Wanted Delinquent Parents" poster in a prominent position at CONTRACTOR's place of business. County's District Attorney will supply CONTRACTOR with the poster to be used.

37.0 FORMER FOSTER YOUTH CONSIDERATION

37.1 Should CONTRACTOR require additional or replacement personnel after the effective date of this Agreement to perform services set forth herein, CONTRACTOR shall give consideration (after COUNTY employees, and GAIN participants as described in Sections 39.0 and 40.0, respectively) for any such position(s) to qualified former foster youth. CONTRACTOR shall notify COUNTY of any new or vacant positions(s) within CONTRACTOR's firm by sending via U.S. mail or facsimile, a list denoting any position(s) for which hiring is anticipated to:

Deputy Director
Bureau of Children and Family Services
Department of Children and Family Services
425 Shatto Place, Room 307
Los Angeles, California 90020

FAX: (213) 383-3773

37.2 The notice sent by CONTRACTOR must indicate the position(s)/title(s) for vacant or new employment opportunity, description of same, requirements/qualifications for position(s), anticipated pay rate or salary schedule, the location where application(s) requests for application(s) may be sent, final date of acceptance for applications and any special circumstances relevant to the firing procedure for said position(s).

37.3 CONTRACTOR is exempt from the provisions of this Section if it is a government entity.

38.0 CONSIDERATION OF HIRING COUNTY EMPLOYEES TARGETED FOR LAYOFFS

38.1 Should CONTRACTOR require additional or replacement personnel after the effective date of this Agreement to perform the services set forth herein, CONTRACTOR shall give first consideration for such employment openings

to qualified permanent COUNTY employees who are targeted for layoff or qualified former COUNTY employees who are on a reemployment list during the term of this Agreement.

38.2 CONTRACTOR shall notify COUNTY of any new or vacant position(s) within the CONTRACTOR's personnel who perform services set forth herein, by sending via U.S. mail or facsimile, a list denoting any positions(s) for which hiring is anticipated to:

Department of Human Resources
500 West Temple Street, Room 588
Los Angeles, California 90012

FAX: (213) 680-2450

38.3 CONTRACTOR is exempt from the provisions of this Section if it is a governmental entity.

39.0 CONSIDERATION OF GREATER AVENUES FOR INDEPENDENCE (GAIN) OR GENERAL RELIEF OPPORTUNITIES FOR WORK (GROW) PARTICIPANTS FOR EMPLOYMENT

Should CONTRACTOR require additional or replacement personnel after the effective date of this agreement, contractor shall give consideration for any such employment openings to participants in the County's Department of Public Social Services' Greater Avenues for Independence (GAIN) Program or General Relief Opportunities for Work (GROW) Program who meet CONTRACTOR's minimum qualifications for the open position. COUNTY will refer GAIN/GROW participants, by job category, to CONTRACTOR.

Note: In the event that both laid-off County employees and GAIN/GROW participants are available for hiring, County employees shall be given first priority.

40.0 COUNTY LOBBYIST

CONTRACTOR and each County lobbyist or County lobbying firm as defined in Los Angeles County Code Section 2.160.010, retained by CONTRACTOR, shall fully comply with Chapter 2.160. Failure on the part of CONTRACTOR or any County lobbyist or County lobbying firm retained by CONTRACTOR to fully comply with the County Lobbyist Ordinance shall constitute a material breach of this Agreement upon which COUNTY may immediately terminate this Agreement.

41.0 NOTICE OF DELAYS

Except as otherwise provided herein, when either party to this Agreement has knowledge that any actual or potential situation is delaying or threatens to delay the timely performance of this Agreement, that party shall, within three (3) working days, give

written notice thereof, including all relevant information with respect thereto, to the other party.

42.0 USE OF RECYCLED-CONTENT PAPER

Consistent with the Board of Supervisor's policy to reduce the amount of solid waste deposited at the COUNTY landfills, the CONTRACTOR agrees to use recycled-content paper to the maximum extent possible on the Project.

43.0 CHILD ABUSE PREVENTION REPORTING

43.1 CONTRACTOR agrees that the safety of the child will always be the first priority. To ensure the safety of children, CONTRACTOR will immediately notify COUNTY and the Child Abuse Hotline whenever CONTRACTOR reasonably suspects that a child has been a victim of abuse and/or is in danger of future abuse. The CONTRACTOR will remain with the child if imminent risk is present.

43.2 CONTRACTOR shall ensure that all known or suspected instances of child abuse are reported to a child protective agency as defined in Section 11164, et. Seq. of the Penal Code. This responsibility shall include:

43.2.1 A requirement that all employees, consultants, or agents performing services under this Agreement who are required by Penal Code, Section 11166(a), to report child abuse, sign a statement that he or she knows of the reporting requirements and will comply with them.

43.2.2 The establishment of procedures to ensure reporting even when employees, consultants or agents who are not required to report child abuse under California Penal Code Section 11166, gain knowledge of, or reasonably suspect that a child had been a victim of abuse or neglect.

43.2.3 The assurance that all employees of CONTRACTOR and subcontractors understand that the safety of the child is always the first priority.

44.0 COMMUNITY BUSINESS ENTERPRISES PROGRAM

In accordance with COUNTY policy, CONTRACTOR has submitted a true and correct copy of Certification Application and is attached as Exhibit F.

45.0 AUTHORIZATION WARRANTY

CONTRACTOR represents and warrants that the signatory to this Agreement is fully authorized to obligate CONTRACTOR hereunder and that all corporate acts necessary to the execution of the Agreement have been accomplished.

46.0 DISPUTE RESOLUTION PROCEDURE

46.1 CONTRACTOR and COUNTY agree to act promptly and diligently to mutually resolve any disputes which may arise with respect to this

Agreement. All such disputes shall be subject to the provisions of this Section 49.0

- 46.2 CONTRACTOR and COUNTY agree that, the existence and details of a dispute notwithstanding, both parties shall continue without delay their performance hereunder, except for any performance which COUNTY determines should be delayed as a result of such dispute. COUNTY shall continue to pay sums not in dispute, during any such period of continued performance.
- 46.3 In the event of any dispute between the parties with respect to this Agreement, CONTRACTOR and COUNTY shall submit the matter to their respective Project Managers for the purpose of endeavoring to resolve such dispute.
- 46.4 In the event that the Project Managers are unable to resolve the dispute within a reasonable time not to exceed five (5) working days from the date of submission of the dispute to them, then the matter shall immediately be submitted to CONTRACTOR's Vice President and County's Project Director for further consideration and discussion to attempt to resolve the dispute.
- 46.5 In the event that CONTRACTOR's Vice President and County's Project Director are unable to resolve the dispute within a reasonable time not to exceed five (5) days from the date of submission of the dispute to them, then the matter shall immediately be submitted to CONTRACTOR's President and to the Director of DCFS for further consideration and discussion to attempt to resolve the dispute.
- 46.6 All disputes utilizing this dispute resolution procedure shall at each and every level of escalation be documented in writing by each party and shall state the specifics of each alleged dispute and all actions taken. The parties shall act in good faith to resolve all disputes. At all levels described in this Section 49.0, the efforts to resolve a dispute shall be undertaken by conference between the parties' respective representatives, either orally (by face-to-face meeting or by telephone), or in writing (by exchanging of correspondence).
- 46.7 Notwithstanding any other provision of this Agreement, COUNTY's right to terminate this Agreement pursuant to Section 24.0, Termination for Default, Section 26.0, Termination for Convenience, or any other termination provision hereunder, and COUNTY's right to seek injunctive relief to enforce the provisions of Section 45.0, Proprietary Rights and Section 33.0, Confidentiality, shall not be subject to this Section 49.0, Dispute Resolution Procedure.

47.0 PROPRIETARY RIGHTS

- 47.1 COUNTY and CONTRACTOR agree that all software, materials, data and information developed under and/or used in connection with this Agreement shall become the sole property of COUNTY, provided that CONTRACTOR may retain possession of all working papers prepared by CONTRACTOR. During and subsequent to the term of this Agreement, COUNTY shall have the right to inspect any and all such working papers, make copies thereof, and use the working papers and the information contained therein.
- 47.2 Any materials, data and information not developed under this Agreement, which CONTRACTOR considers to be proprietary and confidential, shall be plainly and prominently marked by CONTRACTOR as "TRADE SECRET," "PROPRIETARY," or "CONFIDENTIAL."
- 47.3 COUNTY will use reasonable means to ensure that CONTRACTOR's proprietary and confidential materials, data and information are safeguarded and held in confidence. However, COUNTY will notify CONTRACTOR of any Public Records request for items described in Section 45.2. COUNTY agrees not to reproduce or distribute such materials, data and information to non-COUNTY entities without the prior written permission of CONTRACTOR.
- 47.4 Notwithstanding any other provision of this Agreement, COUNTY shall not be obligated in any way under Section 45.3 for:
- 47.4.1 Any material, data and information not plainly and prominently marked with restrictive legends as set forth in Section 45.2;
 - 47.4.2 Any materials, data and information covered under Section 45.1; and
 - 47.4.3 Any disclosure of any materials, data and information which COUNTY is required to make under the California Public Records Act or otherwise by law.
- 47.5 CONTRACTOR shall protect the security of and keep confidential all materials, data and information received or produced under this Agreement. Further, CONTRACTOR shall use whatever security measures are necessary to protect all such materials, data and information from loss or damage by any cause, including, but not limited to, fire and theft.
- 47.6 CONTRACTOR shall not disclose to any party any information identifying, characterizing or relating to any risk, threat, vulnerability, weakness or problem regarding data security in COUNTY's computer systems or to any safeguard, countermeasure, contingency plan, policy or procedure for data

security contemplated or implemented by COUNTY, without COUNTY's prior written consent.

47.7 The provisions of Sections 45.4, 45.5, and 45.6 shall survive the expiration or termination of this Agreement.

48.0 INTERPRETATION OF CONTRACT

49.1 Validity

The invalidity, unenforceability, or illegality of any provision of this Agreement shall not render the other provisions thereof invalid, unenforceable, or illegal.

49.2 Governing Laws, Jurisdiction and Venue

This Agreement shall be construed in accordance with and governed by the laws of the State of California. CONTRACTOR agrees and consents to the exclusive jurisdiction of the courts of the State of California for all purposes regarding this Agreement and further agrees and consents that venue of any action brought hereunder shall be exclusively in the County of Los Angeles, California.

49.3 Waiver

Any waiver by COUNTY of any breach of any one or more of the covenants, conditions, terms and agreements herein contained shall not be construed to be a waiver of any subsequent or other breach of the same or of any other covenant, condition, term or agreement herein contained, nor shall failure on the part of COUNTY to require exact, full and complete compliance with any of the covenants, conditions, terms or agreements herein contained be construed as in any manner changing the terms of this Agreement or stopping COUNTY from enforcing the full provisions thereof.

COUNTY OF LOS ANGELES
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

**Subpoena Services
Juvenile Court Services**

IN WITNESS WHEREOF, the Board of Supervisors of the County of Los Angeles has caused this Agreement to be subscribed by its Chairman and the seal of such Board to be hereto affixed and attested by the Executive Office thereof, and CONTRACTOR has caused this Agreement to be subscribed in its behalf by its duly authorized officer on the day, month and year first above written. The persons signing on behalf of the CONTRACTOR warrant under penalty of perjury that he or she is authorized to bind the CONTRACTOR.

COUNTY OF LOS ANGELES

By _____
Chair, Board of Supervisors

ATTEST:

VIOLET VARONA-LUKENS
Executive Officer-Clerk of the
Los Angeles County
Board of Supervisors

By _____

CONTRACTOR

By _____

Name _____

Title _____

By _____

Name _____

Title _____

Tax Identification Number

APPROVED AS TO FORM:

BY THE OFFICE OF COUNTY COUNSEL
LLOYD W. PELLMAN, County Counsel

BY _____
Kathy Bramwell
Deputy County Counsel

{PRIVATE }EXHIBIT A – STATEMENT OF WORK

{PRIVATE }1.0 DEFINITIONS{tc \l 1 "1.0 DEFINITIONS"}

The following words as used herein shall be construed to have the following meanings, unless otherwise apparent from the context in which they are used:

- 1.1 **Application for Subpoena Duces Tecum** – A legal document which describes the records, documents, photographs, x-rays or other material to be produced in court and an affidavit that good cause exists to have it produced.
- 1.2 **Contract Discrepancy Report (CDR)** - A report prepared by the DCFS Quality Assurance Evaluator to inform the CONTRACTOR of faulty service. The CDR requires a response from the CONTRACTOR explaining the problem and outlining the remedial action being taken to resolve the problem.
- 1.3 **Contract Start Date** – The date the CONTRACTOR begins work (start of the basic contract period) in accordance with the term of the contract.
- 1.4 **Hearing** – A court session at which parties to a legal proceeding (and sometimes witnesses) are noticed to appear.
- 1.5 **Juvenile Court Number** – The dependency court legal file case number is preceded by a “J”, “JD”, “BK”, “CK”, “LK”, which is assigned to a minor or a sibling group when a new petition is filed under Section 300 WIC. If a new petition is later filed on a case in which Juvenile Court jurisdiction was previously terminated, on the same child or any sibling filings, the court number is reactivated.
- 1.6 **Party to the Action** – Persons named on the petition document. In Juvenile Court, parties to the action typically include minor(s), parent(s) guardian(s), and the Department of Children and Family Services (DCFS) as the petitioner. Other parties may at times include a guardian ad litem or a de facto parent.
- 1.7 **Program Manager** – COUNTY representative responsible for daily management of contract operation and overseeing monitoring activities.
- 1.8 **Project Manager** – CONTRACTOR’s officer or employee responsible for monitoring the CONTRACTOR’s compliance with the contract.
- 1.9 **Proof of Service** – The certification under penalty of perjury that a document was served in a legally prescribed manner at a certain time on a certain day to a named individual or legally sufficient substitute.
- 1.10 **Quality Assurance Evaluator (QAE)** – The COUNTY employee responsible for monitoring CONTRACTOR’S compliance with the contract.
- 1.11 **Quality Control Program** – All necessary measures taken by the CONTRACTOR to assure that quality of service will meet the contract

requirements and conform to the requirements set forth in the Statement of Work.

- 1.12 **Service of Process** – The delivery, within legally prescribed time limits, of a document or documents to persons who are entitled or specified by law to receive them (e.g., Notices of Hearings, Court Reports, Subpoenas, Subpoena Duces Tecums , Citations).
- 1.13 **Subpoena** – A written court order commanding a person to appear before the court on a certain day at a certain time.
- 1.14 **Subpoena Duces Tecum (SDT)** –A written court order which commands a person or an agent to bring documents, records, files or other material to court. The order may be for the production of documents only, which must be delivered to the clerk of the court in a sealed envelope, or may include both the documents and the custodian of records.
- 1.15 **User Compliant Report (UCR)** –A report prepared by COUNTY personnel in order to inform the Quality Assurance Evaluator of incidents involving faulty performance by the CONTRACTOR.
- 1.16 **Work Order-** The instruction form prepared by County Counsel Subpoena Clerk indicating the type of action to be performed by Contractor and to be filled in and completed by CONTRACTOR after service of process is completed, whether successful or non-successful (Attachment I).

{PRIVATE }2.0 SCOPE OF WORK

- 2.1 CONTRACTOR shall provide subpoena process services for the Office of the County Counsel on behalf of the Department of Children and Family Services, as described in this Exhibit A, Statement of Work.
- 2.2 CONTRACTOR shall provide subpoena process services to Los Angeles County, Orange County, Riverside County, San Bernardino County and Ventura County.
- 2.3 This Agreement is not an exclusive Agreement. COUNTY reserves the right to contract with other contractors or request the services of other firms for the same or similar services.
- 2.4 CONTRACTOR agrees that should CONTRACTOR perform work outside of the scope of this Agreement, such work shall be deemed a gratuitous effort on the part of the CONTRACTOR and, therefore, CONTRACTOR shall have no claim against COUNTY.

3.0 PERSONNEL

3.1 Key County Personnel for this Agreement

- 3.1.1 COUNTY Program Manager:
Wilhelmina Bradley, Assistant Regional Administrator
Department of Children and Family Services
Edelman's Children Court
201 Centre Plaza Drive
Monterey Park, CA 91754

(323) 526-6704
- 3.1.2 The COUNTY Program Manager or designee shall be responsible for and have full authority to monitor the CONTRACTOR's performance in the daily operation of this Agreement.
- 3.1.3 The COUNTY Program Manager shall provide direction to CONTRACTOR in areas relating to DCFS policy, information and procedural requirements.
- 3.1.4 COUNTY Program Manager is not authorized to make any changes in the Agreement and is not authorized to obligate the COUNTY in any way whatsoever beyond the terms of this Agreement.
- 3.1.5 Subpoena Clerk Supervisor of the Office of the County Counsel:

Adrienne Keating
Office of the County Counsel
Edelman's Children's Court
201 Centre Plaza Drive, Suite 1
Monterey Park, CA 91754

323-526-6235
- 3.1.6 The Office of the County Counsel, Children's Services Division through the Subpoena Clerk Supervisor shall provide direction to CONTRACTOR in areas relating to service of process and daily operation.
- 3.1.7 When applicable, County Counsel Subpoena Clerk Supervisor or designee shall review documents to be served and coordinate pick-up and service of documents with CONTRACTOR's service of process personnel.
- 3.1.8 County Counsel Subpoena Clerk Supervisor or designee shall provide as-needed assistance to CONTRACTOR's service of process personnel to resolve process serving discrepancies.

- 3.1.9 County Counsel Subpoena Clerk Supervisor or designee shall advise the COUNTY Program Manager of CONTRACTOR's compliance with the specific tasks and requirements of this Agreement.
- 3.1.10 The County Counsel Subpoena Clerk Supervisor and designees are not authorized to make any changes to this Agreement and are not authorized to obligate the COUNTY in any way whatsoever beyond the terms of this Agreement.

3.2 CONTRACTOR's Key Personnel

- 3.2.1 CONTRACTOR's Project Manager for this Agreement shall be:

Cal Mejia, General Manager
First Choice Messenger, Inc.
3225 Fletcher Drive
Los Angeles, CA 90065
(323) 255-6800

Alternate Project Manager for this Agreement shall be:

Molly Ramirez
First Choice Messenger, Inc.
3225 Fletcher Drive
Los Angeles, CA 90065
(323) 255-6800
- 3.2.2 COUNTY shall have sole discretion to approve Project Manager and any alternate or replacement recommended by CONTRACTOR.
- 3.2.3 Project Manager or designee approved by COUNTY shall have full authority to act for CONTRACTOR on all contract matters relating to the daily operations of this Agreement.
- 3.2.4 Project Manager or designee shall be available by telephone and/or pager between 8:00 a.m. and 5:00 p.m. Monday through Friday except County holidays.
- 3.2.5 The CONTRACTOR Project Manager and alternate(s) shall be able to read, write, speak and understand English.

3.3 CONTRACTOR's Personnel Requirements

- 3.3.1 Service of Process personnel provided by CONTRACTOR shall present a neat appearance.
- 3.3.2 Personnel provided by CONTRACTOR shall be able to read, write, speak and understand English.
- 3.3.3 Personnel provided by CONTRACTOR shall meet the requirements as described in this Exhibit A, Statement of

Work, 5.0 Performance Requirements, for Service of Process Personnel.

- 3.3.4 Personnel provided by CONTRACTOR shall acknowledge the attorney client privilege and be bound by the Attorney's Code of Professional Responsibility.
- 3.3.5 Personnel provided by CONTRACTOR shall be knowledgeable in service of process requirements and follow-up duties as described in this Exhibit A, Statement of Work.
- 3.3.6 Personnel provided by CONTRACTOR must be able to appropriately handle sensitive materials and perform confidential duties.
- 3.3.7 Personnel provided by CONTRACTOR shall be subject to COUNTY's written approval. COUNTY Program Manager may, upon reasonable notice, direct CONTRACTOR to replace any of the individuals CONTRACTOR has provided, if the Program Manager determines that an individual is not in compliance with the contract.

4.0 SPECIFIC TASKS

CONTRACTOR shall be responsible for the following services:

- 4.1 CONTRACTOR shall provide subpoena process service for the Office of the County Counsel on behalf of DCFS solely in dependency court matters.
- 4.2 CONTRACTOR shall effect personal service to the individual(s), designated authorized agents or substitute service, as stated on a subpoena and otherwise defined by law.
- 4.3 Routine Service

CONTRACTOR shall pick up daily (Monday through Friday, excluding County holidays) between 9:30 a.m. and 10:00 a.m. from County Counsel designated pick-up/drop-off location in Suite One (the ground floor) at Edelman Children's Court, 201 Centre Plaza Drive, Monterey Park, CA 91754, the work orders and document(s) to be served.

- 4.3.1 When CONTRACTOR receives a routine work order or request for service, CONTRACTOR shall initiate service attempts within five (5) days of receipt.
- 4.3.2 Completed work orders and proofs of service shall be returned to the designated pick-up/drop-off location within four (4) business days of successful service and at least five (5) days before the court hearing.
- 4.3.3 Service must be completed five (5) days before the court hearing. If the service is completed less than five (5) days before the

hearing, CONTRACTOR shall contact the Subpoena Clerk to inform County Counsel of the completion of service.

4.4 Rush/Special Service

Upon request by County Counsel Subpoena Clerk Supervisor, CONTRACTOR shall be available for special pick-up of documents to be served on a rush or special basis. CONTRACTOR must pick up the documents within two hours of notification to CONTRACTOR.

4.4.1 Contractor shall return completed work orders and proofs of service made within 48 hours, unless otherwise requested by the Subpoena Clerk.

4.4.2 If a special trip is required for service of process or delivery of the proof of service, it shall be billed at a "Rush" rate.

4.5 CONTRACTOR shall ensure that the appropriate work order form is completed prior to providing services. Services provided without the appropriate work order form will not be paid by COUNTY.

4.6 CONTRACTOR shall make no less than three service attempts at the address(es) provided by County Counsel. Only one attempt at service is to be made if the address is found to be a mailing address only or if the given address is verified as not valid.

4.6.1 When more than one individual in a case is served at the same address after an unsuccessful service attempt at an earlier address referral, CONTRACTOR shall charge the COUNTY for each individual served but only one charge for each service attempt, regardless of the number of individuals served.

4.6.2 Following the third unsuccessful service attempts, CONTRACTOR shall notify County Counsel Subpoena Clerk Supervisor by 10:00 a.m. the next business day, unless COUNTY has requested immediate notification. Documents that are not served must be returned to drop-off/pick-up location accompanied by a completed Certificate of Non-Service by the fourth business day following the last-attempted service, but no later than seventy-two (72) hours before the hearing date, unless COUNTY has requested an earlier return date.

4.7 CONTRACTOR shall fully document all attempts at service including, but not limited to, the date, time, place and manner in which a party was served or attempted to be served, and other pertinent circumstances including physical descriptions of persons at such locations. CONTRACTOR shall submit such information with the service documents to COUNTY whether service is successful or unsuccessful. All documentation shall include the minor's name, court number, and court hearing date.

4.8 CONTRACTOR is required to make every effort to maximize successful process service, including attempts at different times of the day or night and different days of the week.

- 4.9 CONTRACTOR shall provide competent personnel to fulfill the contract and shall have complete flexibility for establishing an effective management and organization structure.
- 4.10 CONTRACTOR shall keep all pertinent accounting, financial records, time cards, proprietary data and other records relating to the contract for a period of four (4) years after completion of the contract unless COUNTY's written permission is given to dispose of material prior to this time.
- 4.11 CONTRACTOR shall maintain confidentiality of all information which may be acquired, arise out of or be connected with activities under this Agreement.
- 4.12 CONTRACTOR must adhere to all applicable statutes under the Codes of Civil Procedure, Business and Professions, Welfare and Institutions, and Penal and the Rules of Court with respect to its service of process duties.
- 4.13 CONTRACTOR will accept faxed documents to be served (with originals to follow), to expedite service of process in Rush or Special types of service.
- 4.14 CONTRACTOR shall submit to COUNTY Program Manager a listing of all subpoenas served for the previous period on the fifteenth (15th) day and the last business day of each month during the term of this Agreement.
- 4.15 CONTRACTOR shall provide COUNTY a monthly service report and an invoice.

5.0 Performance Requirements for Service of Process Personnel

5.1 Minimum Skill and Experience Requirements

- 5.1.1 CONTRACTOR's service of process personnel will serve court related documents as described in this Exhibit A under the direction of the County Counsel Subpoena Clerk Supervisor or designee.
- 5.1.2 Personnel provided by CONTRACTOR to serve process must be at least eighteen (18) years of age and not a party to the court action.
- 5.1.3 Any CONTRACTOR personnel who does not meet the minimum requirements described in this Exhibit A shall not provide service for COUNTY.
- 5.1.4 COUNTY shall evaluate CONTRACTOR's performance under the Agreement based on the specific tasks and performance requirements in this Exhibit A.

5.2 Minimum Service of Process Performance Requirements

- 5.2.1 CONTRACTOR shall examine the County's work order form to determine the type of instruction and action required. In the event

process server has questions or anticipates problems with any aspect of the subpoena service, process server shall immediately contact the Subpoena Clerk Supervisor or designee.

5.2.2 CONTRACTOR shall ensure that the server promptly serves documents to proper person(s) or entity.

5.2.3 When applicable, CONTRACTOR shall ensure that the document(s) served are properly signed by the server. Proofs of service must always be signed by the server.

5.2.4 CONTRACTOR shall ensure that the server signs proof of delivery or service or non-delivery or non-service, as applicable.

6.0 Hours of Operation

6.1 Work orders and service of process documents are to be picked up on a daily basis Monday through Friday between 9:30 a.m. and 10:00 a.m. If CONTRACTOR needs to deviate from this time frame, CONTRACTOR shall notify the Subpoena Clerk Supervisor with the approximate pick-up/drop-off time.

6.2 CONTRACTOR shall not pick up and drop off work orders and service of process documents on County recognized holidays. These holidays may change slightly from year to year. Upon request the COUNTY Program Manager shall provide CONTRACTOR with a list of holidays.

6.3 Nothing in this section prohibits CONTRACTOR from effecting service at any time. This section applies only to office hours of the COUNTY.

7.0 Quality Assurance

7.1 CONTRACTOR shall maintain a file of all relevant employment information on all personnel provided to COUNTY. This file shall be made available for review if requested by COUNTY during the term of this Agreement

7.2 CONTRACTOR shall advise COUNTY of any changes in key personnel which may affect the operation of this Agreement.

7.3 COUNTY shall have the right to interview and/or to examine any prospective employee to be assigned COUNTY service of process work, to determine the skills of the individual provided.

7.4 CONTRACTOR shall replace any personnel providing services to COUNTY under this Contract if personnel is not in compliance with the requirements of this Agreement.

7.5 COUNTY shall not be charged for any individual employee provided by CONTRACTOR who is not qualified, does not meet minimum requirements or does not provide satisfactory service.

- 7.6 COUNTY shall evaluate CONTRACTOR's performance under this Agreement based on the specific tasks and requirements in this Exhibit A.
- 7.7 CONTRACTOR shall maintain an adequate manual or automated system which shall include, but is not limited to, date and time document was served, date and time confirmation was forwarded to COUNTY, and any necessary data to track a particular subpoena.
- 7.8 COUNTY Program Manager or designee or County Counsel Subpoena Clerk Supervisor or designee shall consult with the CONTRACTOR Contract Manager to resolve any problems related to the provision of services.
- 7.9 Overall project coordination between CONTRACTOR and COUNTY shall be through COUNTY's Program Manager or his/her designee and CONTRACTOR's authorized representative(s).
- 7.10 CONTRACTOR shall maintain ongoing, continuous contact with COUNTY. CONTRACTOR shall not schedule or conduct any meetings or negotiations under any Agreement on behalf of COUNTY.

8.0 Licenses and Credentials

- 8.1 All CONTRACTOR or personnel providing services which require specific licenses or credentials must maintain those licenses in a current valid status throughout the period of contract.
- 8.2 Any CONTRACTOR employee who drives a vehicle in performance of the contract operations shall maintain a valid California operator's license for that vehicle class during the term of the contract.
- 8.3 CONTRACTOR shall maintain a current file of required licenses and credentials for the business entity and for all subject employees and make it accessible to COUNTY for inspection upon request.

Exhibit B

PRICING SCHEDULE

SUBPOENA PROCESS SERVICES, JUVENILE COURT SERVICES

NOTE: The number of subpoenas serviced varies from month to month. County does not guarantee a monthly minimum nor maximum number of subpoenas to be served.

COST PER SUBPOENA

I.	<u>Routine</u>	<u>Cost</u>
	Los Angeles County	<u>13.50</u>
	Out of County, to include Orange, Riverside, San Bernardino, and Ventura	<u>18.00</u>
II.	<u>Rush</u>	<u>Cost</u>
	Los Angeles County	<u>15.75</u>
	Out of County, to include Orange, Riverside, San Bernardino, and Ventura	<u>20.00</u>
III.	Incorrect Address with Second Address Referral	<u>Cost</u>
		<u>10.00</u>

CONTRACTOR SHALL INVOICE FOR THE COST PER SUBPOENA BASED UPON COMPLETION AND RETURN OF THE RESPECTIVE WORK ORDER.

**EXHIBIT B-1
LINE ITEM BUDGET**

(INVITATION FOR BIDS FOR SUBPOENA PROCESS SERVICES / CMS-01-052)

ESTIMATED LINE ITEM BUDGET

PRORATED BASED ON AN AVERAGE OF 555 SUBPOENAS PER MONTH

HOURS WORKED

								POSITION	SUN	MON	TUE	WED
								THU	FRI	SAT	HRS.	WAGE
								COST				
											WEEKRATE	MO.
MANAGER	0	8	8	8	8	8	0	40	10.00	\$1,600		
SUPERVISOR	0	8	8	8	8	8	0	40	10.00	\$1,600		
ASSISTANT	0	5	5	5	5	0	0	20	10.00	\$ 800		
DRIVER (1)	0	0	3	3	3	3	3	15	10.00	\$ 600		
DRIVER (2)	0	0	3	3	3	3	3	15	10.00	\$ 600		
DRIVER (3)	0	0	3	3	3	3	3	15	10.00	\$ 600		

TOTAL MONTHLY PAYROLL:	\$5,800
ADDITIONAL PAYROLL COST (HEALTH INS. WORKER COM.)	\$ 614.38
PAYROLL TAX (FICA) SOCIAL SECURITY & MEDICARE	\$ 413.36

TOTAL MONTHLY PAYROLL COST:	\$6,827.74
-----------------------------	------------

MISC. COST	\$ 257.44
------------	-----------

GRAND TOTAL:	\$7,085.18
--------------	------------

TOTAL MONTHLY CONTRACT SUM CHARGES TO COUNTY
\$7,508.33

MONTHLY PROFIT (BASED ON 555 SUBPOENAS PER MONTH)
\$423.15`1

TOTAL ANNUAL CONTRACT SUM CHARGED TO COUNTY
\$90,100.00

PERFORMANCE REQUIREMENTS SUMMARY

Required Services	Performance Indicator	Acceptance Quality Level	Compliance Monitoring Method
Provide subpoena process services for the Office of County Counsel on behalf of DCFS solely in dependency court matters.	<p>Routine Service: Completed work orders and proofs of service shall be returned within four (4) days of successful service.</p> <p>Rush Service: Completed work orders and proofs of service shall be returned within 48 hours of receipt.</p>	<p>Routine Service: Service must be completed within five (5) days before the court hearing.</p> <p>Rush Service: Service must be completed with 24 hours before the hearing.</p>	<p>Completed work orders and proofs of service received in the Office of County Counsel.</p> <p>Completed work orders and proofs of service received in the Office of County Counsel.</p> <p>Contractor shall submit to Program Manager a list of all subpoenas served during the month.</p>
Provide personal service to the individuals designated authorized agents or substitute service, as states on subpoena and otherwise defined by law.	<p>Service shall be initiated within five (5) days of receipt.</p> <p>An attempt at successful process service includes attempts at different times of the day or night and different days of the week.</p>	<p>No less than three service attempts at the same address.</p> <p>Only one attempt at service if address is found to be a mailing address or is not valid.</p>	Documentation on proofs of service all attempts at service, shall include date, time, place and manner in which party was served or attempted and other pertinent circumstances including physical descriptions of persons at such locations.

EXHIBIT D

CERTIFICATION OF INDEPENDENT PRICE DETERMINATION

1.0 Certification of Independent Price Determination

By submission of this proposal, the Proposer certifies that the statements included herein are true and that the prices quoted herein have been arrived at independently without consultation, communication, or agreement with any other bidder or competitor for the purpose of restricting competition.

2.0 List names and telephone numbers of persons authorized to legally commit the Proposer.

Name

Phone Number

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Name of Proposer:

State Contractor's License No:

Tax ID Number:

Name and Title of Signer:

Signature:

Date:

—

EXHIBIT E
PROPOSER'S/OFFEROR'S EEO CERTIFICATION

Proposer/Offeror's Name

Address

Internal Revenue Service Employer Identification Number

GENERAL

In accordance with Section 4.32.010, County Code, of the County of Los Angeles, the contractor, supplier, or vendor certifies and agrees that all persons employed by such firm, its affiliates, subsidiaries, or holding companies are and will be treated equally by the firm without regard to or because of race, religion, ancestry, national origin, or sex and in compliance with all anti-discrimination laws of the United States of America and the State of California.

Name and Title of Signer

Signature

Date

EXHIBIT F COMMUNITY BUSINESS ENTERPRISE FORM (CBE)

FIRM/ORGANIZATION INFORMATION

INSTRUCTIONS: All Bidders/contractors must have this form on file with the Department of Children and Family Services to be considered in compliance with federal, state and local contracting regulations. The information requested below is for statistical purposes only. Categories listed below are based on those described in 49 CFR § 23.5. Complete this form as indicated. Non-profit firms are exempt from completing this form -- indicate the type of business structure as "Non-profit Organization" and return the form to DCFS.

BUSINESS STRUCTURE:

(Corporation, Partnership, Sole Proprietorship, etc. **Non-profit organizations indicate here and discontinue**)

TOTAL NUMBER OF EMPLOYEES IN FIRM (including owners): _____

BREAK DOWN THE NUMBER OF EMPLOYEES (ABOVE), AS FOLLOWS:

	OWNERS/PARTNERS/ ASSOCIATE PARTNERS	MANAGERS	STAFF
Black/African American			
Hispanic/Latin American			
Asian American			
American Indian/Alaskan Native			
White			
<i>Based on the above categories, please indicate the total numbers of men and women in the firm:</i>			
Male			
Female			

PLEASE INDICATE BY PERCENTAGE (%) HOW OWNERSHIP OF THE FIRM IS DISTRIBUTED.

	Black/ African American	Hispanic/Latin American	Asian American	American Indian/ Alaskan Native	White
Men	%	%	%	%	%
Women	%	%	%	%	%

Is your firm currently certified as a minority, women-owned, disadvantaged or disabled veterans business enterprise by a public agency? (If yes, complete the following and attach a copy of your notice of certification.)

M W D DV

Agency _____ Expires _____

Agency _____ Expires _____

LEGEND: M = Minority; W = Women; D = Disadvantaged; DV = Disabled Veterans

EXHIBIT F COMMUNITY BUSINESS ENTERPRISE (CBE)

LAC/CBE SANCTIONS

1. A person or business shall not:
 - a. Knowingly and with the intent to defraud, fraudulently obtain, retain, attempt to obtain or retain, or aid another in fraudulently obtaining, retaining or attempting to obtain or retain, acceptance or certification as a minority or women business enterprise, or both, for the purposes of this article.
 - b. Willfully and knowingly make a false statement with the intent to defraud, whether by affidavit, report, or other representation, to a County official or employee for the purpose of influencing the acceptance or certification or denial of acceptance or certification of any entity as a minority or women business enterprise, or both.
 - c. Willfully and knowingly obstruct, impede, or attempt to obstruct or impede, any county official or employee who is investigating the qualifications of a business entity which has requested acceptance or certification as a minority or women business enterprise, or both.
 - d. Knowingly and with intent to defraud, fraudulently obtain, attempt or obtain, or aid another person or business in fraudulently obtaining or attempting to obtain, public moneys to which the person or business is not entitled under this article.
2. Any person or business who violates paragraph (1) shall be suspended from bidding on, or participating as contractor, subcontractor, or supplier in any County contract or project for a period of three years.
3. No County agency with the powers to award contracts shall enter into any contract with any person or business suspended for violating this section during the period of the person's or business' suspension. No awarding department shall award a contract to any contractor utilizing the services of any person or business as a subcontractor suspended for violating this section during the period of the person's or business suspension.

I acknowledge, that the undersigned, on behalf of himself or herself individually and on behalf of his or her business or organization, if any, is fully aware of the above policy of the County of Los Angeles and I declare under penalty of perjury that the foregoing Firm/Organization Information is true and correct.

Name of Firm

Name and Title

Authorized Signature

Date

EXHIBIT G

CONTRACTOR EMPLOYEE ACKNOWLEDGMENT AND CONFIDENTIALITY AGREEMENT

GENERAL INFORMATION

Your employer, _____, has entered into a contract with the County of Los Angeles to provide various services to the County. Therefore, your signature is required on this employee acknowledgment and confidentiality agreement.

EMPLOYEE ACKNOWLEDGMENT

I understand that _____, is my sole employer for purposes of this employment.

I rely exclusively upon _____, for payment of salary and any and all other benefits payable to me or on my behalf during the period of this employment.

I understand and agree that I am not an employee of Los Angeles County for any purposes and that I do not have and will not acquire any rights or benefits of any kind from the County of Los Angeles during the period of this employment.

I understand and agree that I do not have and will not acquire any rights or benefits pursuant to any agreement between my employer, _____ and the County of Los Angeles.

CONFIDENTIALITY AGREEMENT

As an employee of _____, you may be involved with work pertaining to County services and if so, you may have access to confidential data pertaining to persons and/or other entities who receive services from the County of Los Angeles. The County of Los Angeles has a legal obligation to protect all confidential data, especially data concerning welfare recipient records. If you are to be involved in County work, the County must ensure that you, too, will protect the confidentiality of all data. Consequently, you must sign this confidentiality agreement as a condition of your work to be provided to the County. Please read the agreement and take due time to consider it prior to signing.

I hereby agree that I will not divulge to any unauthorized person data obtained while performing work pursuant to the contract between _____ and the County of Los Angeles.

I agree to forward all requests for the release of information received by me to my immediate supervisor.

I agree to report any and all violations of the above by any other person and/or by myself to my immediate supervisor and I agree to ensure that said supervisor reports such violation to the County of Los Angeles Department of Children and Family Services.

I acknowledge that violation of this agreement and acknowledgment may subject me to civil and/or criminal action and that the County of Los Angeles will seek all possible legal redress.

Employee's Signature: _____ Date: _____

Employee's Printed Position/Title: _____

EXHIBIT H

AUDITOR - CONTROLLER CONTRACT ACCOUNTING AND ADMINISTRATION HANDBOOK

The following handbook is designed for inclusion in most contracts for services entered into by County departments. The purpose of the handbook is to establish accounting, internal control, financial reporting, and contract administration standards for organizations (contractors) who contract with the County.

AUDITOR-CONTROLLER CONTRACT ACCOUNTING AND OPERATING HANDBOOK

The purpose of this Handbook is to establish required accounting, financial reporting, and internal control standards for entities (contractor) which contract with the Los Angeles County.

The accounting, financial reporting and internal control standards described in this Handbook are fundamental. These standards are not intended to be all inclusive or replace acceptable existing procedures or preclude the use of more sophisticated methods. Instead, this Handbook represents the minimum required procedures and controls that must be incorporated into a CONTRACTOR's accounting and financial reporting systems. The internal control standards described are those that apply to organizations with adequate staffing. Organizations with a smaller staff must attempt to comply with the intent of the standards and implement internal control systems appropriate to the size of their staff/organization. The CONTRACTOR's subcontractors must also follow these standards unless otherwise stated in the Agreement.

A. ACCOUNTING AND FINANCIAL REPORTING

1.0 Basis of Accounting

Contractors may elect to use either the cash basis or accrual basis method of accounting for recording financial transactions. Monthly invoices must be prepared on the same basis that is used for recording financial transactions.

1.1 The County recommends the use of the accrual basis for recording financial transactions.

Accrual Basis

Under the accrual basis, revenues are recorded in the accounting period in which they are earned (rather than when cash is received). Expenditures are recorded in the accounting period in which they are incurred (rather than when cash is disbursed).

Accruals

Accruals shall be recorded observing the following:

- Only accruals where cash will be disbursed within six months of the accrual date should be recorded.
- Recorded accruals must be reversed in the subsequent accounting period.

1.2 If an agent elects to use the cash basis for recording financial transactions during the year:

- Necessary adjustments must be made to record the accruals at the beginning and the end of the contract.
- All computations, supporting records, and explanatory notes used in converting from cash basis to the accrual basis must be retained.

1.3 Prepaid Expenses

Prepaid expenses (e.g., insurance, service agreements, lease agreements, etc.) should only be expensed during a given Agreement year to the extent goods and services are received during that Agreement year.

ACCOUNTING SYSTEM

2.0 Each agent shall maintain a double entry accounting system (utilizing debits and credits) with a General Journal, a Cash Receipts Journal, a General Ledger, and a Cash Disbursements Journal. The County recommends that a Payroll Register also be maintained. Postings to the General Ledger and Journals should be made on a monthly basis.

2.1 General Journal

A General Journal shall be maintained for recording adjusting entries, reversing entries, closing entries, and other financial transactions not normally recorded in the Cash Receipts Journal or Cash Disbursements Journal. Entries in the General Journal must be adequately documented, and entered in chronological order with sufficient explanatory notations.

Example: DR CR

Rent Expense	100
--------------	-----

Rent Payable	100
--------------	-----

To record accrued rent to March 31, 20XX

2.2 Cash Receipts Journal

A Cash Receipts Journal shall be maintained for recording all cash receipts (e.g., County warrants, contributions, interest income, etc.).

The Cash Receipts Journal shall contain (minimum requirements) the following column headings:

- date
- receipt number
- cash debit columns
- income credit columns for the following accounts:
- County payments (one per funding source)
- Contributions
 - Other Income (Grants, sales of supplies/services, rental income, miscellaneous revenue, fees, etc.)

Description (Entries in the description column must specify the source of cash receipts.)

2.3 Cash Disbursements Journal

A Cash Disbursements Journal shall be maintained for recording all cash disbursements (e.g., rent, utilities, maintenance, etc.)

The Cash Disbursements Journal shall contain (minimum requirements) the following column headings:

- date
- check number
- cash (credit) column
 - expense account name
 - description

Note (1) Separate expense columns are recommended for salary expense and other recurring expense classifications for each program.

Note (2) Entries in the description column must specify the nature of the expense and the corresponding expense classification if not included in the column heading.

Note (3) Checks should not be written to employees (other than payroll, mileage, travel, and petty cash custodian checks.)

A Check Register may be substituted for the Cash Disbursements Journal, but this is not recommended. If used, the Check Register must contain the same expense classifications and description information required when a Cash Disbursements Journal is used.

Disbursements without supporting documentation will be disallowed on audit. Cancelled checks and credit card statements (VISA, AMEX, department store, etc.) will not constitute acceptable support. (See Section A.3.2 and B.2.4) for additional guidance.

2.4 General Ledger

A General Ledger shall be maintained with accounts for all assets, liabilities, fund balances, expenditures, and revenues. Separate accounts must be maintained for each County program's expenses and revenues.

2.5 Chart of Accounts

A Chart of Accounts shall be maintained:

The County recommends that agents use the expense account titles on the monthly invoice submitted to the County.

If the contractor uses account titles which differ from the account titles on the monthly invoice, each account title must clearly identify the nature of the transaction(s) posted to the account.

Contractor must consistently post transactions that are of a similar nature to the same account. For example, all expenses for travel shall be posted to the account titled "travel" or "travel expense" and not intermixed with other expense accounts.

2.6 Payroll Register

The County recommends that a Payroll Register be maintained for recording all payroll transactions. The Register should contain the following:

	Name
	Position
	Social Security Number
	Salary (hourly wage)
	Payment Record including:
accrual period	gross pay
	itemized payroll deductions
net pay amount	
check number	

If a Payroll Register is not used, the information in (2.6) must be recorded in the cash disbursements journal.

CONTRACTOR will ensure compliance with all applicable federal and State requirements for withholding payroll taxes (FIT, FICA, FUTA, SIT, SIU, etc.), reporting, filing (941, DE-7, W-2, W-4 and 1099s), and all applicable tax deposits.

Contractor will ensure compliance with Internal Revenue Service guidelines in properly classifying employees and independent contractors.

2.7 Contractor Invoices

Each agent shall present an invoice to the County each calendar month to report the financial activity of the month. In addition, if advanced funding is involved, an invoice shall be presented at the beginning of the contract period. Invoices shall be prepared in the manner prescribed by the County's contracting department.

3.0 Records

Adequate care shall be exercised to safeguard the accounting records and supporting documentation. Any destruction or theft of the CONTRACTOR's accounting records or supporting documentation shall be immediately reported to the County.

3.1 Retention

All accounting records (e.g., journals, ledgers, etc.), financial records and supporting documentation (e.g., invoices, receipts, checks, etc.) must be retained for a minimum of five years after the termination of the CONTRACTOR's agreement.

3.2 Supporting Documentation

All revenues and expenditures shall be supported by original vouchers, invoices, receipts, or other documentation and shall be maintained in the manner described herein.

Invoices, receipts and canceled checks will be required to support an outlay of funds. Unsupported disbursements will be disallowed on audit. CONTRACTOR will be required to repay COUNTY for all disallowed costs. **Photocopied invoices or receipts, any internally generated documents (i.e., vouchers, request for check forms, requisitions, canceled checks, etc.), and account**

statements do not constitute supporting documentation for purchases.

Supporting documentation is required for various types of expenditures as follows:

Payroll – time and attendance records signed by the employee and approved in writing by the supervisor, time distribution records by program accounting for total work time on a daily basis for all employees, records showing actual expenditures for Social Security and unemployment insurance, State and federal quarterly tax returns, federal W-2 forms, and federal W-4 forms.

Consultant Services – contracts, time and attendance records, billing rates, travel vouchers detailing purpose, time and location of travel, purchase orders and invoices for supplies and invoices or other supporting documentation detailing the nature of services provided.

Travel – travel policies of the CONTRACTOR (written); travel expense vouchers showing location, date and time of travel, purpose of trip, and rates claimed; vehicle mileage logs showing dates, destination and headquarters, purpose of trip, and mileage. Travel related to conferences should include conference literature detailing purpose of the conference. Reimbursement rates for mileage shall not exceed applicable federal guidelines.

Reimbursement for actual receipts or per diem rates for meal expenses shall not exceed the maximum County's reimbursement rate for employees.

Receipts shall be required for lodging for approved out-of-town travel dates. Maximum reimbursable lodging amount is the maximum County's reimbursement rate for employees for a single occupancy hotel accommodation.

Operating Expenses (e.g., utilities, office supplies, equipment rentals, etc.) – bona fide contracts or lease agreements, if any, and invoices and receipts detailing the cost and items purchased will constitute the primary supporting documentation. For internal control purposes, the CONTRACTOR may maintain vouchers, purchase orders, requisitions, stock received reports, bills of lading, etc.

Outside Meals - receipts and/or invoices for all meals, a record of the nature and purpose of each meal, and identification of the participants.

3.3 Payments to Affiliated Organizations or Persons

CONTRACTOR shall not make payments to affiliated organizations or persons for program expenses (e.g., salaries, services, rent, etc.) that exceed the lower of actual cost or the reasonable cost for such expenses. A reasonable cost shall be the price that would be paid by one party to another when the parties are dealing at arm's length (fair market price).

Organizations or persons (related parties) related to the CONTRACTOR or its members by blood, marriage, or through legal organization (corporation, partnership, association, etc.) will be considered affiliated for purposes of this Agreement. County shall be solely responsible for the determination of affiliation unless otherwise allowed and approved by the State or federal agencies.

Payments to affiliated organizations or persons will be disallowed on audit to the extent the payments exceed the lower of actual costs or the reasonable costs for such items.

3.4 Filing

All relevant supporting documentation for reported program expenditures and revenues shall be filed in a systematic and consistent manner. It is recommended that supporting documents be filed as follows:

- checks – numerically
- invoices – vendor name and date
- vouchers – numerically
- receipts – chronologically
- timecards – pay period and alphabetically

3.5 Referencing

Accounting transactions posted to the CONTRACTOR's books shall be appropriately cross-referenced to supporting documentation. It is recommended that expenditure transactions on the CONTRACTOR's books be cross-referenced to the supporting documentation as follows:

- invoices – vender name and date
- checks – number
- vouchers –number
- revenue – receipt number

Supporting documentation for non-payroll expenditures (i.e., operating expenditures) should be cross-referenced to the corresponding check issued for payment. If multiple invoices are paid with one check, all related invoices should be bound together and cross-referenced to the check issued for payment.

4.0 Donations and Other Sources of Revenue

Restricted donations and other sources of revenue earmarked specifically for the Contract must be utilized on allowable contract expenditures.

5.0 Audits

The agent will make available for inspection and audit to County representatives, upon request, during working hours, during the duration of the contract and for a period of five years thereafter, all of its books and records relating to the operation by it of each project or business activity which is funded in whole or part with governmental monies, whether or not such monies are received through the County. All such books and records shall be maintained at a location within Los Angeles County.

6.0 Single Audit Requirements

OMB Circular 133, "Audits of State, Local Governments and Non Profit Organizations" requires that certain organizations receiving federal awards, including pass-through awards, have annual audits. Details are contained in the respective Circular.

A copy of any Single Audit reports must be filed with the County within the timeframes prescribed by the applicable Circular.

7.0 Subcontracts

No CONTRACTOR shall subcontract services without the prior written consent of the County.

CONTRACTOR shall provide County with copies of all executed subcontracts and shall be responsible for the performance of their subcontractors.

B. INTERNAL CONTROLS

Internal controls safeguard the CONTRACTOR's assets from misappropriations, misstatements or misuse. Each CONTRACTOR shall prepare necessary written

procedures establishing internal controls for its personnel. The CONTRACTOR shall instruct all of its personnel in these procedures and continuously monitor operations to ensure compliance with them.

1.0 Cash Receipts

1.1. Separate Fund or Cost Center

All contract revenues shall be maintained in a bank account. If revenues from other sources are maintained in the same bank account, revenues for each source must be clearly identifiable on the accounting records through the use of cost centers or separate accounts.

1.2 Deposits

All checks shall be restrictively endorsed upon receipt.

Cash received shall be recorded on pre-numbered receipts. Checks shall be recorded on a check remittance log at the time of receipt.

Cash receipts (i.e., cash and checks) totaling \$500 or more shall be deposited within one day of receipt. Collections of less than \$500 may be held and secured and deposited weekly or when the total reaches \$500, whichever occurs first.

Duplicate deposit slips shall be retained and filed chronologically, and shall contain sufficient reference information for comparison to the Cash Receipts Journal (and individual receipts, if applicable).

1.3 Separation of Duties

An employee who does not handle cash shall record all cash receipts.

1.4 Bank Reconciliations

Bank statements should be received and reconciled by someone with no cash handling, check writing, or bookkeeping functions.

Monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed by both the preparer and the reviewer. Reconciling items should be resolved timely.

2.0 Disbursements

2.1 General

All disbursements for expenditures, other than petty cash, shall be made by check.

Blank check stock shall be secured and accounted for to preclude unauthorized use.

Checks shall not be payable to "cash" or signed in advance. Checks written to employees for reimbursement of out-of-pocket costs must be supported by receipts and invoices.

A second signature shall be required on all checks, unless otherwise specified in contract.

If the bookkeeper signs checks, a second signature shall be required on the checks, regardless of limits specified in contract.

Voided checks shall be marked void with the signature block cut out. The voided checks must be filed with the cancelled checks.

Unclaimed or undelivered checks shall be cancelled periodically.

All supporting documentation shall be referenced to check numbers and marked "paid" or otherwise canceled to prevent reuse or duplicate payments.

Disbursements without adequate supporting documentation will be disallowed on audit.

2.2. Approvals and Separation of Duties

Employees responsible for approving cash disbursements and/or signing of checks shall examine all supporting documentation at the time the checks are approved and signed.

All disbursements, excluding petty cash purchases, shall be approved by persons independent of check preparation and bookkeeping activities.

2.3 Petty Cash

A petty cash fund up to \$500 may be maintained for payment of small incidental expenses incurred by the CONTRACTOR (e.g., postage due, small purchases of office supply items, etc.). The CONTRACTOR must obtain written approval from the County to establish a petty cash fund greater than \$500.

Petty cash disbursements must be supported by invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. In the event that outside (external) supporting documentation is not obtainable for minor disbursements (under \$10), such as parking meters, etc., then documentation shall be considered as proper supporting documentation on a basis of reasonableness. Petty cash disbursements should not be used as a substitute for normal purchasing and disbursement practices i.e., payment by check).

The petty cash fund shall be maintained on an imprest basis. A check should be drawn to set up the fund and to make periodic reimbursements. Receipts, vouchers, etc., supporting each fund replenishment must be bound together, filed chronologically and cross referenced to the reimbursement check.

2.4 Credit Cards

The use of credit cards, both CONTRACTOR issued credit cards and an employee's personal credit cards used on behalf of the CONTRACTOR, should be limited to purchases where normal purchasing and disbursement practices are not suitable.

Credit cards issued in the CONTRACTOR's name must be adequately protected and usage monitored to ensure that only authorized and necessary items are purchased.

Credit card purchases should be pre-approved by CONTRACTOR management to ensure that they are reasonable and necessary.

All credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. Credit card statements are not sufficient support for credit card purchases.

3.0 Timekeeping

3.1 Timecards

Timecards or time reports must be prepared for each pay period. Timecards or time reports must indicate total hours worked each day by program and total hours charged to each of the CONTRACTOR's programs. Time estimates do not qualify as support for payroll expenditures and will be disallowed on audit.

All timecards and time reports must be signed in ink by the employee and the employee's supervisor to certify the accuracy of the reported time.

3.2 Personnel and Payroll Records

Adequate security must be maintained over personnel and payroll records with access restricted to authorized individuals.

Personnel and payroll records should include (but not be limited to) the following:

- Employee's authorized salary rate
- Employee information sheet
- Resume and/or application
- Proof of qualifications for the position, if required (e.g., notarized copy or original diploma, license, etc.)
- Performance evaluations
- Criminal record clearance
- Citizenship Status
- Benefit balances (e.g., sick time, vacation, etc.)

Benefit Balances

Employee benefit balances (e.g., sick time, vacation, personal time, etc.) should be maintained on at least a monthly basis. Benefit balances should be increased when benefit hours are earned and decreased as hours are used.

Limitations on Positions and Salaries

The CONTRACTOR shall pay no salaries higher than those authorized in the contract, or the attachments thereto, except as proscribed by state or federal law.

If an employee serves in the same or dual capacities under more than one Agreement or program, the employee may not charge more than 100% of their time to the contracts or programs taken as a whole.

Salaried employees who work less than 40 hours per week shall be paid a salary that corresponds with the employee's work schedule.

The salary expense of salaried employees working on more than one Agreement or program shall be allocated to each program based on the ratio of the number of hours worked on each program during the pay period to the total number hours worked during the pay period.

The CONTRACTOR will make no retroactive salary adjustment for any employee without written approval from the County.

Separation of Duties

Payroll checks should be distributed by persons not involved in timekeeping, preparing of payroll, or reconciling bank accounts.

All employee hires and terminations, or pay rate changes, shall be approved by authorized persons independent of payroll functions.

All employee hires and terminations, or pay rate changes shall be approved in writing by authorized persons independent of payroll functions.

4.0 Fixed Assets

A fixed asset is defined as an article of nonexpendable tangible personal property having a useful life of more than two years. The County recommends all fixed assets with an acquisition cost of \$1,000 or more per unit be capitalized.

Acquisition cost means the net invoice unit price of an item, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired.

4.1 Acquisition

Fixed asset purchases shall be approved by the Agency's Board of Directors or their authorized representative.

4.2 Identification and Inventory

All fixed assets purchased with Contract funds are to be used solely for the benefit of the Contract and should be appropriately tagged.

Each CONTRACTOR shall maintain a current listing of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding.

An inventory of all fixed assets should be conducted at least once each year to ensure that all fixed assets are accounted for and maintained in proper working order.

4.3 Security

Physical security should be adequately maintained over fixed assets to prevent misuse and theft of County property.

4.4 Property Management

The CONTRACTOR shall assume responsibility and accountability for the maintenance of all non-expandable property purchased, leased, or rented with Contract funds.

The CONTRACTOR shall report promptly, in writing, to the County all cases of theft, loss, damage, or destruction of fixed assets. The report shall contain at a minimum, item identification, recorded value, facts relating to loss, and a copy of the law enforcement report.

CONTRACTOR shall dispose of or return to the County all fixed assets, in accordance with their Contract.

5.0 Bonding – All officers, employees, and agents who handle cash or have access to the agent's funds shall be bonded.

C. COST PRINCIPLES

1.0 Policy

It is the intent of the COUNTY to provide funds for the purpose of CONTRACTOR providing services required by the Agreement. CONTRACTOR shall use these funds on actual expenses in an economical and efficient manner and ensure they are reasonable, proper and necessary costs of providing services and are allowable in accordance with the applicable OMB Circular.

1.1. Limitations on Expenditures of Program Funds

CONTRACTOR shall comply with the Agreement and the applicable OMB Circular. The Circular defines direct and indirect costs, discusses allowable cost allocation procedures and the development of Indirect Cost Rates, and specifically addresses the allowability of a variety of different costs.

If a CONTRACTOR is unsure of the allowability of any particular type of cost or individual cost, the CONTRACTOR should request advance written approval from the County prior to incurring the cost.

1.2 Expenses Incurred Outside the Agreement Period

Expenses charged against program funds may not be incurred prior to the effective date of the Agreement or subsequent to the Agreement termination date.

1.3 Budget Limitation

Expenses may not exceed the maximum limits shown on the contract budget.

1.4 Unspent Funds

The County will determine the disposition of unspent program funds upon termination of the contract.

1.5 Necessary, Proper and Reasonable

Only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the Program are allowable.

2.0 Allocation of Cost Pools

For CONTRACTORS that provide services in addition to the services required under contract, the CONTRACTOR shall allocate expenditures that benefit programs or funding sources on an equitable basis.

In accordance with the applicable OMB Circular, agencies shall define their allocable costs as either direct or indirect costs (as defined below) and allocate each cost using the basis most appropriate and feasible.

The CONTRACTOR shall maintain documentation related to the allocation of expenses (e.g., timecards, time summaries, square footage measurements, number of employees, etc.).

Under no circumstances shall allocated costs be charged to an extent greater than 100% of actual costs or the same cost be charged both directly and indirectly.

2.1 Direct Costs

Direct costs are those costs that can be identified specifically with a particular final cost objective (i.e., a particular program, service, or other direct activity of an organization). Examples of direct costs include salaries and benefits of employees working on the program, supplies and other items purchased specifically for the program, costs related to space used by employees working on the program, etc.

For all employees, other than general and administrative, the hours spent on each program (activity) should be recorded on employees' timecards and the payroll expense should be treated as direct charges and distributed on the basis of recorded hours spent on each program.

Joint costs (i.e., costs that benefit more than one program or activity) which can be distributed in reasonable proportion to the benefits received may also be direct costs.

Examples of bases for allocating joint costs as direct costs:

- Number of direct hours spent on each program
- Number of employees in each program
- Square footage occupied by each program
- Other equitable methods of allocation

2.2 Indirect Costs

Indirect costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Examples of indirect costs include salaries, employee benefits, supplies, and other costs related to general administration of the organization, depreciation and use allowances, and the salaries and expenses of executive officers, personnel administration, and accounting.

Examples of bases for allocating indirect costs:

- Total direct salaries and wages
- Total direct costs (excluding capital expenditures and other distorting items such as subcontractor payments)

2.3 Acceptable Indirect Cost Allocation Methods

OMB Circulars describe the following allowable methods for allocating indirect costs:

- Simplified allocation method
- Direct allocation method
- Multiple allocation base method
- Negotiated indirect cost rate

Simplified Allocation Method

This method can be used when an organization's major functions benefit from its indirect costs to approximately the same degree. Using this method, all allocable costs are considered indirect costs and an indirect cost rate is determined by dividing total allowable indirect costs by an equitable distribution base.

Example

Agency-wide indirect costs	\$250,000
Less: Capital expenditures	<u>10,000</u>
Allocable indirect costs	240,000
Total agency-wide indirect salaries	\$1,000,000
Indirect cost rate (\$240,000/\$1,000,000)	24%
Program direct salaries	\$100,000
Program indirect costs (24% x \$100,000)	<u>\$24,000</u>

Direct Allocation Method

This method can also be used when an organization's major functions benefit from its indirect costs to approximately the same degree. Using this method, all costs except general administration and general expenses are treated as direct costs. Joint costs for depreciation, rental, facilities maintenance, telephone, and other similar expenses are prorated individually to each direct activity on a basis appropriate for that type of cost.

The remaining costs, which consist exclusively of general administration and general expenses are then allocated using the simplified allocation method previously discussed.

Multiple Base Allocation Method

This method can be used when an organization's major functions benefit from its indirect costs in varying degrees. Using this method, indirect costs are grouped to permit allocation of each grouping on the basis of the benefits provided to the major functions. Each grouping is then allocated

individually using the basis most appropriate for the grouping being allocated.

2.4 Cost Allocation Plan

If the CONTRACTOR has a negotiated indirect cost rate approved by a federal agency, it shall submit a copy of the approval letter when requested by County.

If the CONTRACTOR does not have a negotiated indirect cost rate, CONTRACTOR shall submit an annual Agency-wide Cost Allocation Plan when requested by County. The Cost Allocation Plan shall be prepared in accordance with County instructions and the applicable OMB Circular and include the following information:

1. CONTRACTOR general accounting policies:
 - Basis of accounting (cash or accrual)
 - Fiscal year
 - Method for allocating indirect costs (simplified, direct, multiple, negotiated rate)
 - indirect cost rate allocation base
2. Identify the CONTRACTOR's direct and indirect costs (by category) and describe the cost allocation methodology for each category.
3. Signature of CONTRACTOR management certifying the accuracy of the plan.

Negotiated Indirect Cost Rates

Agencies have the option of negotiating an indirect cost rate or rates for use on all their Federal programs. The CONTRACTOR must submit a cost allocation plan to the federal agency providing the most funds to the organization. The approved indirect cost rate is then applied to the total approved direct cost base.

If CONTRACTOR has a federally approved indirect cost rate, CONTRACTOR shall submit a copy of the approval letter to COUNTY upon request.

D. UNALLOWABLE COSTS

OMB Circulars address the allowability of a variety of different costs. For all costs, there are certain restrictions and limitations; however, the following costs are not allowable under any circumstances:

- Bad debts
- Contingency provisions
- Contributions and donations
- Fines and penalties
- Fundraising activities
- Interest expense (unless expressly allowed by Federal guidelines)
- Losses on other awards

E. OVERPAYMENTS

If upon audit, or at any time during the Agreement year, it is determined that invoices submitted to the County and used as a basis for payments to the CONTRACTOR were inaccurate, County shall determine the total overpayment and require the CONTRACTOR to repay County. The County may withhold payments from CONTRACTOR's future payments for any amounts not returned to the COUNTY or credited to the Contract unless otherwise prohibited by State or federal regulations.

F. MISCELLANEOUS REQUIREMENTS

1.0 Insurance

CONTRACTOR is responsible for securing and maintaining insurance coverage as required by the Agreement. CONTRACTOR must notify County when insurance is revoked, reduced to a level or coverage less than required, or otherwise made ineffective.

Insurance shall include an endorsement naming the COUNTY as an additional insured.

2.0 Activity

No funds, materials, property, or services contributed to the COUNTY or the CONTRACTOR under this Agreement shall be used in the performance of any political activity, the election of any candidate, or the defeat of any candidate for public office.

EXHIBIT I

**OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR NO. A-87
COST PRINCIPLES FOR STATE, LOCAL AND INDIAN TRIBAL GOVERNMENTS**

EXHIBIT J

Title 2 ADMINISTRATION

Chapter 2.201 LIVING WAGE PROGRAM

2.201.010 Findings.

The board of supervisors finds that the county of Los Angeles is the principal provider of social and health services within the county, especially to persons who are compelled to turn to the county for such services. Employers' failure to pay less than a living wage to their employees causes them to use such services thereby placing an additional burden on the county of Los Angeles. (Ord. 99-0048 § 1 (part), 1999.)

2.201.020 Definitions.

The general definitions contained in Chapter 2.02 shall be applicable to this chapter unless inconsistent with the following definitions:

- A. "County" includes the county of Los Angeles, any county officer or body, any county department head, and any county employee authorized to enter into a Proposition A contract or a cafeteria services contract with an employer.
- B. "Employee" means any individual who is an employee of an employer under the laws of California, and who is providing full time services to an employer, some or all of which are provided to the county of Los Angeles under a Proposition A contract, or under a cafeteria services contract at a county of Los Angeles owned or leased facility.
- C. "Employer" means:
 - 1. An individual or entity who has a contract with the county:
 - a. For services which is required to be more economical or feasible under Section 44.7 of the Charter of the county of Los Angeles, and is not listed as an excluded contract in Section 2.121.250 B of the Los Angeles County Code, referred to in this chapter as a "Proposition A contract," or
 - b. For cafeteria services, referred to in this chapter as a "cafeteria services contract," and
 - c. Who has received or will receive an aggregate sum of \$25,000.00 or more in any 12 month period under one or more Proposition A contracts and/or one or more cafeteria services contracts; or
 - 2. An individual or entity that enters into a subcontract with an employer, as defined in subsection C1 and who employs

employees to provide services under the employer's contract with the county.

1

- D. "Full time" means a minimum 40 hours worked per week, or a lesser number of hours, if the lesser number is a recognized industry standard and is approved as such by the chief administrative officer, but in no event less than 35 hours worked per week. (Ord. 99-0048 § 1 (part), 1999.)

2.201.030 Prospective effect.

This chapter shall be applicable to Proposition A contracts and cafeteria services contracts and their amendments the terms of which commence three months or more after the effective date of this chapter.* It shall not be applicable to Proposition A contracts or cafeteria services contracts or their amendments in effect before this chapter becomes applicable. (Ord. 99-0048 § 1 (part), 1999.)

*Editor's note: Ordinance 99-0048, which enacted Ch. 2.201, is effective on July 22, 1999.

2.201.040 Payment of living wage.

- A. Employers shall pay employees a living wage for their services provided to the county of no less than the hourly rates set under this chapter. The rates shall be \$8.32 per hour with health benefits, or \$9.46 per hour without health benefits.
- B. To qualify for the living wage rate with health benefits, an employer shall pay at least \$1.14 per hour towards the provision of bona fide health care benefits for each employee and any dependents during the term of a Proposition A contract or a cafeteria services contract. Proof of the provision of such benefits must be submitted to the county for evaluation during the procurement process to qualify for the lower living wage rate in subsection A of this section. Employers who provide health care benefits to employees through the county department of health services community health plan are deemed to have qualified for the lower living wage rate in subsection A of this section.
- C. The board of supervisors may, from time to time, adjust the amounts specified in subsections A and B of this section, above for future contracts. (Ord. 99-0048 § 1 (part), 1999.)

2.201.050 Other provisions.

- A. Full Time Employees. An employer shall assign and use full time employees to provide services under a Proposition A contract or a cafeteria services contract, unless the employer can demonstrate to the county the necessity to use non-full time employees based on staffing efficiency or the county requirements of an individual job.

- B. Neutrality in Labor Relations. An employer shall not use any consideration received under a Proposition A contract or a cafeteria services contract to hinder, or to further, organization of, or collective bargaining activities by or on behalf of an employer's employees, except that this restriction shall not apply to any expenditure made in the course of good faith collective bargaining, or to any expenditure pursuant to obligations incurred under a bona fide collective bargaining agreement, or which would otherwise be permitted under the provisions of the National Labor Relations Act.
- C. Administration. The chief administrative officer shall be responsible for the administration of this chapter. The chief administrative officer may, with the

2

advice of county counsel, issue interpretations of the provisions of this chapter. The chief administrative officer in conjunction with the affirmative action compliance officer shall issue written instructions on the implementation and on-going administration of this chapter. Such instructions may provide for the delegation of functions to other county departments.

- D. Compliance Certification. An employer shall, during the term of a Proposition A contract, or a cafeteria services contract, report for each employee and certify the hours worked, wages paid, and amounts the employer paid for health benefits, and provide other information deemed relevant to the enforcement of this chapter by the county. Such reports shall be made at the times and in the manner set forth in instructions issued by the chief administrative officer in conjunction with the affirmative action compliance officer. The affirmative action compliance officer in conjunction with the chief administrative officer shall report annually to the board of supervisors on contractor compliance with the provisions of this chapter.
- E. Contractor Standards. An employer shall demonstrate during the procurement process and for the duration of a Proposition A contract or a cafeteria services contract a history of business stability, integrity in employee relations, and the financial ability to pay a living wage. (Ord. 99-0048 § 1 (part), 1999.)

2.201.060 Employer retaliation prohibited.

No employer shall take an adverse action causing a loss of any benefit of employment, of any contract benefit, or any statutory benefit to any employee, person, or other entity, who has reported a violation of this chapter to the board of supervisors or to one or more of their offices, to the county chief administrative officer, or to the county auditor controller, or to the county department administering the Proposition A contract or cafeteria services contract. (Ord. 99-0048 § 1 (part), 1999.)

2.201.070 Employee retention rights.

In the event that any Proposition A contract or cafeteria service contract is terminated by the county prior to its expiration, any new contract with a subsequent employer for such services shall provide for the employment of the predecessor employer's employees as provided in this section.

A. A "retention employee" is an employee of a predecessor employer:

1. Who is not an exempt employee under the minimum wage and maximum hour exemptions defined in the federal Fair Labor Standards Act;
2. Who has been employed by an employer under a predecessor Proposition A contract or a predecessor cafeteria services contract for at least six months prior to the date of a new contract; and
3. Who is or will be terminated from his or her employment as a result of the county entering into a new contract.

B. Subsequent employers shall offer employment to all retention employees who are qualified for such jobs.

3

C. A subsequent employer is not required to hire a retention employee who:

1. Has been convicted of a crime related to the job or his or her job performance; or
2. Fails to meet any other county requirement for employees of a contractor.

D. A subsequent employer may not terminate a retention employee for the first 90 days of employment under a new contract, except for cause. Thereafter a subsequent employer may retain a retention employee on the same terms and conditions as the subsequent employer's other employees. (Ord. 99-0048 § 1 (part), 1999.)

2.201.080 Enforcement and remedies.

For violation of any of the provisions of this chapter:

- A. An employee may bring an action in the courts of the state of California for damages caused by an employer's violation of this chapter.
- B. The county department head responsible for administering a Proposition A contract or a cafeteria services contract may do one or more of the following in accordance with such instructions as may be issued by the chief administrative officer:

1. Assess liquidated damages as provided in the contract; and/or
2. Recommend to the board of supervisors the termination of the contract; and/or
3. Recommend to the board of supervisors that an employer be barred from award of future county contracts for a period of time consistent with the seriousness of the employer's violation of this chapter, not to exceed three years. (Ord. 99-0048 § 1 (part), 1999.)

2.201.090 Exceptions.

- A. Other Laws. This chapter shall not be interpreted or applied to any employer or to any employee in a manner inconsistent with United States or California laws.
- B. Collective Bargaining Agreements. Any provision of this chapter shall be superseded by a collective bargaining agreement that expressly so provides.
- C. This chapter shall not be applied to any employer which is a nonprofit corporation qualified under Section 501(c)(3) of the Internal Revenue Code.
- D. Small Businesses. This chapter shall not be applied to any employer which is a business entity organized for profit, including but not limited to any individual, partnership, corporation, joint venture, association or cooperative, which entity:
 1. Is not an affiliate or subsidiary of a business dominant in its field of operation; and

4

2. Has 20 or fewer employees during the contract period, including full time and part time employees; and
3. Does not have annual gross revenues in the preceding fiscal year which if added to the annual amount of the contract awarded exceed \$1,000,000.00; or
4. If the business is a technical or professional service, does not have annual gross revenues in the preceding fiscal year which if added to the annual amount of the contract awarded exceed \$2,500,000.00.

"Dominant in its field of operation" means having more than 20 employees, including full time and part time employees, and more than \$1,000,000.00 in annual gross revenues or \$2,500,000.00 in annual gross revenues if a technical or professional service.

"Affiliate or subsidiary of a business dominant in its field of operation" means a business which is at least 20 percent owned by a business dominant in its field of operation, or by partners, officers, directors, majority stockholders, or their equivalent, of a business dominant in that field of operation. (Ord. 99-0055 § 1, 1999: Ord. 99-0048 § 1 (part), 1999.)

2.201.100 Severability.

If any provision of this chapter is found invalid by a court of competent jurisdiction, the remaining provisions shall remain in full force and effect. (Ord. 99-0048 § 1 (part), 1999.)

PROPOS
ITION A
COST
ANALYSI
S
SUBPOE
NA
SERVICE
S

	Monthly Average	Cost per Subpoena	Months	Annual Amount
COUNTY COST (Los Angeles County Sheriff's Departm ent) Subpoen a Service				
<u>Routine</u>				
In County	480	15.32	12	\$88,216.83
Out of County	20	15.32	12	3,675.79
<u>Rush</u>				
In County	19	15.32	12	3,491.92
Out of County	1	15.32	12	183.79
Additional Deliveries Incorrect Address	35	15.32	12	6,432.48
Total subpoen as	555 1			
Annual Cost				\$102,001
<u>FIRST CHOICE MESSEN GER</u>				
<u>Routine</u>				

In County	480	\$13.50	12	\$77,800
Out of County	20	18.00	12	4,300
Rush				
In County	19	15.75	12	3,600
Out of County	1	20.00	12	200
Additional deliveries				
Incorrect Address	35	10.00	12	4,200
Total subpoena as	555 1			
Annual Cost				\$90,100

	Net County Cost						
	Total	Rate	Fed	Rate	State	County	
Yearly Avoidable Cost	\$102,001	53.65%	\$54,723	33.14%	\$33,803	\$13,474	
Yearly Contract Cost	90,100		\$48,339		\$29,859	11,902	
Yearly Contract Savings	\$11,901		\$6,385		\$3,944	\$1,572	
3 Years Avoidable Cost	\$306,002		\$164,170		\$101,409	\$40,423	
3 Years Contract Cost	270,300		145,016		89,577	35,707	
3 Years Contract Savings	\$35,702		\$19,154		\$11,832	\$4,716	

1) The Contractor tracks the average number of

subpoena
s that are
served,
based on
a monthly
basis,
annual
basis,
and by
type of
subpoena
. We
verified
with the
Departme
nt that
these
numbers
are
reasonabl
e.

Cost Items	County Cost Analysis--Sheriff	
	Court Services Specialist, 2744	Totals
Top step salaries (monthly) 1	2969.36	-
Number of employees	59	59
Annual salary cost	2,102,306.88	2,102,306.88
Adjustment for top step salaries variance at 95.6813% 2	(90,792.33)	(90,792.33)
Estimated actual avoidable salaries	2,011,514.55	2,011,514.55
Add: Related employee benefits at 27.4%. 2	550,169.35	550,169.35
Total Salaries and EB's	2,561,683.90	2,561,683.90
Vehicle Costs 3	650,097.90	650,097.90
Total subpoena costs	3,211,781.80	3,211,781.80
Total cost per subpoena 4	15.32	-

Footnotes:

- (1) Salaries in effect as of April 2002 for Court Services Specialist, Sheriff.
 (2) Provided by Auditor-Controller.
 (3) Annual vehicle costs for Sheriff. [(10 miles per subpoena-estimate)*(209,709 subpoenas)*(0.31 per mile)
 (4) Based on 209,709 civil service documents served per year.
 (\$3,211,782/209,709)

August 29, 1997

MEMORANDUM FOR THE RECORD

FROM: Norwood J. Jackson
Deputy Controller
Office of Federal Financial Management

SUBJECT: Recompilation of OMB Circular A-87

I certify that the attached document constitutes a recompilation of Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." The recompilation consists of the last complete revision of the Circular published at 60 FR 26484 (dated May 4, 1995, published May 17, 1995), as further amended at 62 FR 45934 (August 29, 1997).

OMB CIRCULAR A-87 (REVISED 5/4/95, As Further Amended 8/29/97)

CIRCULAR NO. A-87
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Cost Principles for State, Local, and Indian Tribal Governments

1. **Purpose.** This Circular establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).

2. **Authority.** This Circular is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Procedures Act of 1950, as amended; the Chief Financial Officers Act of 1990; Reorganization Plan No. 2 of 1970; and Executive Order No. 11541 ("Prescribing the Duties of the Office of Management and Budget and the Domestic Policy Council in the Executive Office of the President").

3. **Background.** An interagency task force was established in 1987 to review existing cost principles for Federal awards to State, local, and Indian tribal governments. The task force

studied Inspector General reports and recommendations, solicited suggestions for changes to the Circular from governmental units, and compared for consistency the provisions of other OMB cost principles circulars covering non-profit organizations and universities. A proposed revised Circular reflecting the results of those efforts was issued on October 12, 1988, and August 19, 1993. Extensive comments on the proposed revisions, discussions with interest groups, and related developments were considered in developing this revision.

4. **Rescissions.** This Circular rescinds and supersedes Circular A-87, issued January 15, 1981.

5. **Policy.** This Circular establishes principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. The principles are for determining allowable costs only. They are not intended to identify the circumstances or to dictate the extent of Federal and governmental unit participation in the financing of a particular Federal award. Provision for profit or other increment above cost is outside the scope of this Circular.

6. **Definitions.** Definitions of key terms used in this Circular are contained in Attachment A, Section B.

7. **Required Action.** Agencies responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units shall issue codified regulations to implement the provisions of this Circular and its Attachments by September 1, 1995.

8. **OMB Responsibilities.** The Office of Management and Budget (OMB) will review agency regulations and implementation of this Circular, and will provide policy interpretations and assistance to insure effective and efficient implementation. Any exceptions will be subject to approval by OMB. Exceptions will only be made in particular cases where adequate justification is presented.

9. **Information Contact.** Further information concerning this Circular may be obtained by contacting the Office of Federal Financial Management, Financial Standards and Reporting Branch, Office of Management and Budget, Washington, DC 20503, telephone 202-395-3993.

10. **Policy Review Date.** OMB Circular A-87 will have a policy review three years from the date of issuance.

11. **Effective Date.** This Circular is effective as follows:

- For costs charged indirectly or otherwise covered by the cost allocation plans described in Attachments C, D and E, this revision shall be applied to cost allocation plans and indirect cost

proposals submitted or prepared for a governmental unit's fiscal year that begins on or after September 1, 1995.

- For other costs, this revision shall be applied to all awards or amendments, including continuation or renewal awards, made on or after September 1, 1995.

Attachments

OMB CIRCULAR NO. A-87

COST PRINCIPLES FOR STATE, LOCAL AND INDIAN TRIBAL GOVERNMENTS

TABLE OF CONTENTS

Attachment A - General Principles for Determining Allowable Costs

Attachment B - Selected Items of Cost

Attachment C - State/Local-Wide Central Service Cost Allocation Plans

Attachment D - Public Assistance Cost Allocation Plans

Attachment E - State and Local Indirect Cost Rate Proposals

ATTACHMENT A
Circular No. A-87

GENERAL PRINCIPLES FOR DETERMINING ALLOWABLE COSTS

TABLE OF CONTENTS

A. Purpose and Scope

1. Objectives

2. Policy guides

3. Application

B. Definitions

1. Approval or authorization of the awarding or cognizant Federal agency

2. Award

3. Awarding agency

4. Central service cost allocation plan

5. Claim

6. Cognizant agency

7. Common rule

8. Contract

9. Cost

10. Cost allocation plan

11. Cost objective

12. Federally-recognized Indian tribal government

13. Governmental unit

14. Grantee department or agency

15. Indirect cost rate proposal

16. Local government

17. Public assistance cost allocation plan

18. State

C. Basic Guidelines

1. Factors affecting allowability of costs

2. Reasonable costs

3. Allocable costs

4. Applicable credits

D. Composition of Cost

1. Total cost
2. Classification of costs

E. Direct Costs

1. General
2. Application
3. Minor items

F. Indirect Costs

1. General
2. Cost allocation plans and indirect cost proposals
3. Limitation on indirect or administrative costs

G. Interagency Services

H. Required Certifications

A. **Purpose and Scope**

1. Objectives. This Attachment establishes principles for determining the allowable costs incurred by State, local, and federally-recognized Indian tribal governments (governmental units) under grants, cost reimbursement contracts, and other agreements with the Federal Government (collectively referred to in this Circular as "Federal awards"). The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal or governmental unit participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law. Provision for profit or other increment above cost is outside the scope of this Circular.

2. Policy guides.

a. The application of these principles is based on the fundamental premises that:

(1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

(2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(3) Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

b. Federal agencies should work with States or localities which wish to test alternative mechanisms for paying costs for administering Federal programs. The Office of Management and Budget (OMB) encourages Federal agencies to test fee-for-service alternatives as a replacement for current cost-reimbursement payment methods in response to the National Performance Review's (NPR) recommendation. The NPR recommended the fee-for-service approach to reduce the burden associated with maintaining systems for charging administrative costs to Federal programs and preparing and approving cost allocation plans. This approach should also increase incentives for administrative efficiencies and improve outcomes.

3. Application.

a. These principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal awards (including subawards) except those with (1) publicly-financed educational institutions subject to OMB Circular A-21, "Cost Principles for Educational Institutions," and (2) programs administered by publicly-owned hospitals and other providers of medical care that are subject to requirements promulgated by the sponsoring Federal agencies. However, this Circular does apply to all central service and department/agency costs that are allocated or billed to those educational institutions, hospitals, and other providers of medical care or services by other State and local government departments and agencies.

b. All subawards are subject to those Federal cost principles applicable to the particular organization concerned. Thus, if a subaward is to a governmental unit (other than a college, university or hospital), this Circular shall apply; if a subaward is to a commercial organization, the cost principles applicable to commercial organizations shall apply; if a subaward is to a college or university, Circular A-21 shall apply; if a subaward is to a hospital, the cost principles used by the Federal awarding agency for awards to hospitals shall apply, subject to the provisions of subsection A.3.a. of this Attachment; if a subaward is to some other non-profit organization, Circular A-122, "Cost Principles for Non-Profit Organizations," shall apply.

c. These principles shall be used as a guide in the pricing of fixed price arrangements where costs are used in determining the appropriate price.

d. Where a Federal contract awarded to a governmental unit incorporates a Cost Accounting Standards (CAS) clause, the requirements of that clause shall apply. In such cases, the governmental unit and the cognizant Federal agency shall establish an appropriate advance agreement on how the governmental unit will comply with applicable CAS requirements when estimating, accumulating and reporting costs under CAS-covered contracts. The agreement shall indicate that OMB Circular A-87 requirements will be applied to other Federal awards. In all cases, only one set of records needs to be maintained by the governmental unit.

e. Conditional exemptions.

(1) OMB authorizes conditional exemption from OMB administrative requirements and cost principles circulars for certain Federal programs with statutorily-authorized consolidated planning and consolidated administrative funding, that are identified by a Federal agency and approved by the head of the Executive department or establishment. A Federal agency shall consult with OMB during its consideration of whether to grant such an exemption.

(2) To promote efficiency in State and local program administration, when Federal non-entitlement programs with common purposes have specific statutorily-authorized consolidated planning and consolidated administrative funding and where most of the State agency's resources come from non-Federal sources, Federal agencies may exempt these covered State-administered, non-entitlement grant programs from certain OMB grants management requirements. The exemptions would be from all but the allocability of costs provisions of OMB Circulars A-87 (Attachment A, subsection C.3), "Cost Principles for State, Local, and Indian Tribal Governments," A-21 (Section C, subpart 4), "Cost Principles for Educational Institutions," and A-122 (Attachment A, subsection A.4), "Cost Principles for Non-Profit Organizations," and from all of the administrative requirements provisions of OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," and the agencies' grants management common rule.

(3) When a Federal agency provides this flexibility, as a prerequisite to a State's exercising this option, a State must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of OMB Circular A-87, and extend such policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not be used for general expenses required to carry out other responsibilities of a State or its subrecipients.

B. Definitions

1. "Approval or authorization of the awarding or cognizant Federal agency" means documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes

approval of the costs. If the costs are covered by a State/local-wide cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval.

2. "Award" means grants, cost reimbursement contracts and other agreements between a State, local and Indian tribal government and the Federal Government.

3. "Awarding agency" means (a) with respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, and (b) with respect to a subaward, the party that awarded the subaward.

4. "Central service cost allocation plan" means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

5. "Claim" means a written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of award terms, or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency.

6. "Cognizant agency" means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this Circular on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies.

7. "Common Rule" means the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule" originally issued at 53 FR 8034-8103 (March 11, 1988). Other common rules will be referred to by their specific titles.

8. "Contract" means a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to): awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and, bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 et seq.

9. "Cost" means an amount as determined on a cash, accrual, or other basis acceptable to the

Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.

10. "Cost allocation plan" means central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. Each of these terms are further defined in this section.

11. "Cost objective" means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

12. "Federally-recognized Indian tribal government" means the governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat. 688) certified by the Secretary of the Interior as eligible for the special programs and services provided through the Bureau of Indian Affairs.

13. "Governmental unit" means the entire State, local, or federally-recognized Indian tribal government, including any component thereof. Components of governmental units may function independently of the governmental unit in accordance with the term of the award.

14. "Grantee department or agency" means the component of a State, local, or federally-recognized Indian tribal government which is responsible for the performance or administration of all or some part of a Federal award.

15. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect cost rate as described in Attachment E of this Circular.

16. "Local government" means a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under State law), any other regional or interstate government entity, or any agency or instrumentality of a local government.

17. "Public assistance cost allocation plan" means a narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies as described in Attachment D of this Circular.

18. "State" means any of the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments.

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

b. Be allocable to Federal awards under the provisions of this Circular.

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

i. Be the net of all applicable credits.

j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally- funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- c. Market prices for comparable goods or services.
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
- e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

3. Allocable costs.

- a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.
- c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law

or terms of the Federal awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements.

- d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Attachments C, D, and E.

4. Applicable credits.

- a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities

on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

b. In some instances, the amounts received from the Federal Government to finance activities or service operations of the governmental unit should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or

amounts to be charged to Federal awards. (See Attachment B, item 15, "Depreciation and use allowances," for areas of potential application in the matter of Federal financing of activities.)

D. Composition of Cost

1. Total cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.

2. Classification of costs. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal awards are provided in the sections that follow.

E. Direct Costs

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.

c. Equipment and other approved capital expenditures.

d. Travel expenses incurred specifically to carry out the award.

3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

F. Indirect Costs

1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Attachments C, D, and E.

3. Limitation on indirect or administrative costs.

a. In addition to restrictions contained in this Circular, there may be laws that further limit the amount of administrative or indirect cost allowed.

b. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

G. Interagency Services. The cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rate share of indirect costs. A standard indirect cost allowance equal to ten percent of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans as described in Attachment C.

H. Required Certifications. Each cost allocation plan or indirect cost rate proposal required by Attachments C and E must comply with the following:

1. No proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be acceptable unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Attachments C and E. The certificate must be signed on behalf of the governmental unit by an individual at a level no lower than chief financial officer of the governmental unit that submits the proposal or component covered by the proposal.

2. No cost allocation plan or indirect cost rate shall be approved by the Federal Government unless the plan or rate proposal has been certified. Where it is necessary to establish a cost allocation plan or an indirect cost rate and the governmental unit has not submitted a certified proposal for establishing such a plan or rate in accordance with the requirements, the Federal Government may either disallow all indirect costs or unilaterally establish such a plan or rate. Such a plan or rate may be based upon audited historical data or such other data that have been furnished to the cognizant Federal agency and for which it can be demonstrated that all unallowable costs have been excluded. When a cost allocation plan or indirect cost rate is unilaterally established by the Federal Government because of failure of the governmental unit to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

ATTACHMENT B
Circular No. A-87

SELECTED ITEMS OF COST

TABLE OF CONTENTS

1. Accounting
2. Advertising and public relations costs
3. Advisory councils
4. Alcoholic beverages
5. Audit services
6. Automatic electronic data processing
7. Bad debts
8. Bonding costs
9. Budgeting
10. Communications
11. Compensation for personnel services
 - a. General
 - b. Reasonableness
 - c. Unallowable costs
 - d. Fringe benefits
 - e. Pension plan costs
 - f. Post-retirement health benefits
 - g. Severance Pay
 - h. Support of salaries and wages

- i. Donated services
- 12. Contingencies
- 13. Contributions and donations
- 14. Defense and prosecution of criminal and civil proceedings, and claims
- 15. Depreciation and use allowances
- 16. Disbursing service
- 17. Employee morale, health, and welfare costs
- 18. Entertainment
- 19. Equipment and other capital expenditures
- 20. Fines and penalties
- 21. Fund raising and investment management costs
- 22. Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs.
- 23. General government expenses
- 24. Idle facilities and idle capacity
- 25. Insurance and indemnification
- 26. Interest
- 27. Lobbying
- 28. Maintenance, operations, and repairs
- 29. Materials and supplies
- 30. Memberships, subscriptions, and professional activities
- 31. Motor pools
- 32. Pre-award costs
- 33. Professional service costs
- 34. Proposal costs
- 35. Publication and printing costs
- 36. Rearrangements and alterations
- 37. Reconversion costs
- 38. Rental costs
- 39. Taxes
- 40. Training
- 41. Travel costs
- 42. Underrecovery of costs under Federal agreements

Sections 1 through 42 provide principles to be applied in establishing the allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in Attachment A to this Circular. Failure to mention a particular item of cost in these sections is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.

1. **Accounting.** The cost of establishing and maintaining accounting and other information systems is allowable.

2. Advertising and public relations costs.

a. The term "advertising costs" means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.

b. The term "public relations" includes community relations and means those activities dedicated to maintaining the image of the governmental unit or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.

c. Advertising costs are allowable only when incurred for the recruitment of personnel, the procurement of goods and services, the disposal of surplus materials, and any other specific purposes necessary to meet the requirements of the Federal award. Advertising costs associated with the disposal of surplus materials are not allowable where all disposal costs are reimbursed based on a standard rate as specified in the grants management common rule.

d. Public relations costs are allowable when:

(1) Specifically required by the Federal award and then only as a direct cost;

(2) Incurred to communicate with the public and press pertaining to specific activities or accomplishments that result from performance of the Federal award and then only as a direct cost; or

(3) Necessary to conduct general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of Federal contract/grant awards, financial matters, etc.

e. Unallowable advertising and public relations costs include the following:

(1) All advertising and public relations costs other than as specified in subsections c. and d.;

(2) Except as otherwise permitted by these cost principles, costs of conventions, meetings, or other events related to other activities of the governmental unit including:

(a) Costs of displays, demonstrations, and exhibits;

(b) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction

with shows and other special events; and

(c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;

(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs; and

(4) Costs of advertising and public relations designed solely to promote the governmental unit.

3. **Advisory councils.** Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal awarding agency or as an indirect cost where allocable to Federal awards.

4. **Alcoholic beverages.** Costs of alcoholic beverages are unallowable.

5. **Audit services.** The costs of audits are allowable provided that the audits were performed in accordance with the Single Audit Act, as implemented by Circular A-128, "Audits of State and Local Governments." [Note: In June 1997, OMB rescinded Circular A-128 and co-located all audit requirements in a re-titled Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."] Generally, the percentage of costs charged to Federal awards for a single audit shall not exceed the percentage derived by dividing Federal funds expended by total funds expended by the recipient or subrecipient (including program matching funds) during the fiscal year. The percentage may be exceeded only if appropriate documentation demonstrates higher actual costs.

Other audit costs are allowable if specifically approved by the awarding or cognizant agency as a direct cost to an award or included as an indirect cost in a cost allocation plan or rate.

6. **Automatic electronic data processing.** The cost of data processing services is allowable (but see section 19, Equipment and other capital expenditures).

7. **Bad debts.** Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable unless provided for in Federal program award regulations.

8. **Bonding costs.** Costs of bonding employees and officials are allowable to the extent that such bonding is in accordance with sound business practice.

9. **Budgeting.** Costs incurred for the development, preparation, presentation, and execution of budgets are allowable.

10. **Communications.** Costs of telephone, mail, messenger, and similar communication services are allowable.

11. Compensation for personnel services.

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h.

b. Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

c. Unallowable costs. Costs which are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation.

d. Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 25, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

e. Pension plan costs. Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

(1) For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

(2) Pension costs calculated using an actuarial cost- based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursement and the governmental unit's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the pension fund.

(3) Amounts funded by the governmental unit in excess of the actuarially determined amount for a fiscal year may be used as the governmental unit's contribution in future periods.

(4) When a governmental unit converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion shall be allowable if amortized over a period of years in accordance with GAAP.

(5) The Federal Government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

f. Post-retirement health benefits. Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by subsection e. for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

(1) For PRHB financed on a pay as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

(2) PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHB fund.

(3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.

(4) When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

(5) To be allowable in the current year, the PRHB costs must be paid either to:

(a) An insurer or other benefit provider as current year costs or premiums. or

(b) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.

(6) The Federal Government shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

g. Severance pay.

(1) Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by (a) law, (b) employer-employee agreement, or (c) established written policy.

(2) Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.

(3) Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods,
and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent;
and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

(6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

(a) Substitute systems which use sampling methods (primarily for Aid to Families with Dependent Children (AFDC), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:

(i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection (c);

(ii) The entire time period involved must be covered by the sample; and

(iii) The results must be statistically valid and applied to the period being sampled.

(b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.

(c) Less than full compliance with the statistical sampling standards noted in subsection (a) may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.

(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.

i. Donated services.

(1) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the provisions of the Common Rule.

(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit's indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.

(3) To the extent feasible, donated services will be supported by the same methods used by the governmental unit to support the allocability of regular personnel services.

12. Contingencies. Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, or intensity, or with an assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see subsection 25.c.), pension plan reserves (see subsection 11.e.), and post-retirement health and other benefit reserves (see subsection 11.f.) computed using acceptable actuarial cost methods.

13. Contributions and donations. Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable.

14. Defense and prosecution of criminal and civil proceedings, and claims.

a. The following costs are unallowable for contracts covered by 10 U.S.C. 2324(k), "Allowable costs under defense contracts."

(1) Costs incurred in defense of any civil or criminal fraud proceeding or similar proceeding (including filing of false certification brought by the United States where the contractor is found liable or has pleaded nolo contendere to a charge of fraud or similar proceeding (including filing of a false certification)).

(2) Costs incurred by a contractor in connection with any criminal, civil or administrative proceedings commenced by the United States or a State to the extent provided in 10 U.S.C. 2324(k).

b. Legal expenses required in the administration of Federal programs are allowable. Legal expenses for prosecution of claims against the Federal Government are unallowable.

15. Depreciation and use allowances.

a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefitting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances. A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.) except as provided in subsection g. Except for enterprise funds and internal service funds that are included as part of a State/local cost allocation plan, classes of assets shall be determined on the same basis used for the government-wide financial statements.

b. The computation of depreciation or use allowances shall be based on the acquisition cost of

the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used. The value of an asset donated to the governmental unit by an unrelated third party shall be its fair market value at the time of donation.

Governmental or quasi-governmental organizations located within the same State shall not be considered unrelated third parties for this purpose.

c. The computation of depreciation or use allowances will exclude:

(1) The cost of land;

(2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and

(3) Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.

d. Where the use allowance method is followed, the use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition costs. The use allowance for equipment will be computed at an annual rate not exceeding $6 \frac{2}{3}$ percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, etc.) cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the $6 \frac{2}{3}$ percent equipment use allowance limitation.

e. Where the depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be used. Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation

applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

f. When the depreciation method is used for buildings, a building's shell may be segregated from the major component of the building (e.g., plumbing system, heating, and air conditioning system, etc.) and each major component depreciated over its estimated useful life, or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

g. A reasonable use allowance may be negotiated for any assets that are considered to be fully depreciated, after taking into consideration the amount of depreciation previously charged to the government, the estimated useful life remaining at the time of negotiation, the

effect of any increased maintenance charges, decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.

h. Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.

16. Disbursing service. The cost of disbursing funds by the Treasurer or other designated officer is allowable.

17. Employee morale, health, and welfare costs. The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employee counseling services, employee information publications, and any related expenses incurred in accordance with a governmental unit's policy are allowable. Income generated from any of these activities will be offset against expenses.

18. Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

19. Equipment and other capital expenditures.

a. As used in this section the following terms have the meanings as set forth below:

(1) "Capital expenditure" means the cost of the asset including the cost to put it in place. Capital expenditure for equipment means the net invoice price of the equipment, including the

cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from, capital expenditure cost in accordance with the governmental unit's regular accounting practices.

(2) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$5000.

(3) "Other capital assets" mean buildings, land, and improvements to buildings or land that materially increase their value or useful life.

b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation on buildings, capital improvements, and equipment (see section 15). See also section 38 for allowability of rental costs for buildings and equipment.

c. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency. Federal awarding agencies are authorized at their option to waive or delegate this approval requirement.

d. Items of equipment with an acquisition cost of less than \$5000 are considered to be supplies and are allowable as direct costs of Federal awards without specific awarding agency approval.

e. The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by (1) continuing to claim the otherwise allowable use allowances or depreciation charges on the equipment or by (2) amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

f. When replacing equipment purchased in whole or in part with Federal funds, the governmental unit may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

20. Fines and penalties. Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

21. Fund raising and investment management costs.

- a. Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.
- b. Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable. However, such costs associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this Circular are allowable.
- c. Fund raising and investment activities shall be allocated an appropriate share of indirect costs under the conditions described in subsection C.3.b. of Attachment A.

22. Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs.

a. (1) Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

(2) Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

- (a) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under sections 15 and 19.
- (b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.
- (c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in subsection 25.d.
- (d) Compensation for the use of the property was provided through use allowances in lieu of depreciation.

b. Substantial relocation of Federal awards from a facility where the Federal Government

participated in the financing to another facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal awards.

c. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection a., e.g., land or included in the fair market value used in any adjustment resulting from a relocation of Federal awards covered in subsection b. shall be excluded in computing Federal award costs.

23. General government expenses.

a. The general costs of government are unallowable (except as provided in section 41). These include:

(1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executives of federally-recognized Indian tribal governments;

(2) Salaries and other expenses of State legislatures, tribal councils, or similar local governmental bodies, such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction;

(3) Cost of the judiciary branch of a government;

(4) Cost of prosecutorial activities unless treated as a direct cost to a specific program when authorized by program regulations (however, this does not preclude the allowability of other legal activities of the Attorney General); and

(5) Other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost in program regulations.

b. For federally-recognized Indian tribal governments and Councils Of Governments (COGs), the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his staff is allowable.

24. Idle facilities and idle capacity.

a. As used in this section the following terms have the meanings set forth below:

(1) "Facilities" means land and buildings or any portion thereof, equipment individually or

collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the governmental unit.

(2) "Idle facilities" means completely unused facilities that are excess to the governmental unit's current needs.

(3) "Idle capacity" means the unused capacity of partially used facilities. It is the difference between (a) that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays and (b) the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.

(4) "Cost of idle facilities or idle capacity" means costs such as maintenance, repair, housing, rent, and other related costs, e.g., insurance, interest, and depreciation or use allowances.

b. The costs of idle facilities are unallowable except to the extent that:

(1) They are necessary to meet fluctuations in workload; or

(2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subsection, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities.

c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided that the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by use on other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.

25. Insurance and indemnification.

a. Costs of insurance required or approved and maintained, pursuant to the Federal award, are allowable.

b. Costs of other insurance in connection with the general conduct of activities are allowable

subject to the following limitations:

(1) Types and extent and cost of coverage are in accordance with the governmental unit's policy and sound business practice.

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the awarding agency has specifically required or approved such costs.

c. Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the Federal award or as described below. However, the Federal Government will participate in actual losses of a self insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

d. Contributions to a reserve for certain self-insurance programs including workers compensation, unemployment compensation, and severance pay are allowable subject to the following provisions:

(1) The type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the governmental unit's settlement rate for those liabilities and its investment rate of return.

(2) Earnings or investment income on reserves must be credited to those reserves.

(3) Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) incurred but not submitted. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.

(4) Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured

activities or agencies of the governmental unit. If individual departments or agencies of the governmental unit experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.

(5) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer.

e. Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., subsection 11.f. for post retirement health benefits), are allowable in the year of payment provided (1) the governmental unit follows a consistent costing policy and (2) they are allocated as a general administrative expense to all activities of the governmental unit.

f. Insurance refunds shall be credited against insurance costs in the year the refund is received.

g. Indemnification includes securing the governmental unit against liabilities to third persons and other losses not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the governmental unit only to the extent expressly provided for in the Federal award, except as provided in subsection d.

h. Costs of commercial insurance that protects against the costs of the contractor for correction of the contractor's own defects in materials or workmanship are unallowable.

26. Interest.

a. Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided in subsection b. or authorized by Federal legislation.

b. Financing costs (including interest) paid or incurred on or after the effective date of this Circular associated with the otherwise allowable costs of building acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October 1, 1980 is allowable, subject to the conditions in (1)-(4). Financing costs (including interest) paid or incurred on or after the effective date of this Circular associated with otherwise allowable costs of equipment is allowable, subject to the conditions in (1)-(4).

(1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the governmental unit;

(2) The assets are used in support of Federal awards;

(3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.

(4) Governmental units will negotiate the amount of allowable interest whenever cash payments (interest, depreciation, use allowances, and contributions) exceed the governmental unit's cash payments and other contributions attributable to that portion of real property used for Federal awards.

27. Lobbying. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants, contracts, cooperative agreements, and loans shall be governed by the common rule, "New Restrictions on Lobbying" published at 55 FR 6736 (February 26, 1990), including definitions, and the Office of Management and Budget "Government-wide Guidance for New Restrictions on Lobbying" and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), and 57 FR 1772 (January 15, 1992), respectively.

28. Maintenance, operations, and repairs. Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they: (1) keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, (2) do not add to the permanent value of property or appreciably prolong its intended life, and (3) are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures (see sections 15 and 19).

29. Materials and supplies. The cost of materials and supplies is allowable. Purchases should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing, consistently applied. Incoming transportation charges are a proper part of materials and supply costs.

30. Memberships, subscriptions, and professional activities.

a. Costs of the governmental unit's memberships in business, technical, and professional organizations are allowable.

b. Costs of the governmental unit's subscriptions to business, professional, and technical periodicals are allowable.

c. Costs of meetings and conferences where the primary purpose is the dissemination of technical information, including meals, transportation, rental of meeting facilities, and other incidental costs are allowable.

d. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency.

e. Costs of membership in organizations substantially engaged in lobbying are unallowable.

31. **Motor pools.** The costs of a service organization which provides automobiles to user governmental units at a mileage or fixed rate and/or provides vehicle maintenance, inspection, and repair services are allowable.

32. **Pre-award costs.** Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

33. **Professional service costs.**

a. Cost of professional and consultant services rendered by persons or organizations that are members of a particular profession or possess a special skill, whether or not officers or employees of the governmental unit, are allowable, subject to section 14 when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.

b. Retainer fees supported by evidence of bona fide services available or rendered are allowable.

34. **Proposal costs.** Costs of preparing proposals for potential Federal awards are allowable. Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs may be charged directly to Federal awards with the prior approval of the Federal awarding agency.

35. **Publication and printing costs.** Publication costs, including the costs of printing (including the processes of composition, plate-making, press work, and binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling are allowable.

36. Rearrangements and alterations. Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable. Special arrangements and alterations costs incurred specifically for a Federal award are allowable with the prior approval of the Federal awarding agency.

37. Reconversion costs. Costs incurred in the restoration or rehabilitation of the governmental unit's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.

38. Rental costs.

a. Subject to the limitations described in subsections b. through d. of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased.

b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property.

c. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where:

(1) One party to the lease is able to control or substantially influence the actions of the other;

(2) Both parties are parts of the same governmental unit; or

(3) The governmental unit creates an authority or similar entity to acquire and lease the facilities to the governmental unit and other parties.

d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. This amount would include expenses such as depreciation or use allowance, maintenance, and insurance. The provisions of Financial Accounting Standards Board Statement 13 shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in section 26.

39. Taxes.

a. Taxes that a governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs. This provision becomes effective for taxes paid during the governmental unit's first fiscal year that begins on or after January 1, 1998, and applies thereafter.

b. Gasoline taxes, motor vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal Government are allowable.

c. This provision does not restrict the authority of Federal agencies to identify taxes where Federal participation is inappropriate. Where the identification of the amount of unallowable taxes would require an inordinate amount of effort, the cognizant agency may accept a reasonable approximation thereof.

40. **Training.** The cost of training provided for employee development is allowable.

41. **Travel costs.**

a. **General.** Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in non-federally-sponsored activities. Notwithstanding the provisions of section 23, travel costs of officials covered by that section, when specifically related to Federal awards, are allowable with the prior approval of a grantor agency.

b. **Lodging and subsistence.** Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as a result of the governmental unit's policy. In the absence of a written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57 of Title 5, United States Code "Travel and Subsistence Expenses; Mileage Allowances," or by the Administrator of General Services, or the President (or his designee) pursuant to any provisions of such subchapter shall be used as guidance for travel under Federal awards (41 U.S.C. 420, "Travel Expenses of Government Contractors").

c. **Commercial air travel.** Airfare costs in excess of the customary standard (coach or equivalent) airfare, are unallowable except when such accommodations would: require circuitous routing, require travel during unreasonable hours, excessively prolong travel, greatly increase the duration of the flight. result in increased cost that would offset transportation

savings, or offer accommodations not reasonably adequate for the medical needs of the traveler. Where a governmental unit can reasonably demonstrate to the awarding agency either the nonavailability of customary standard airfare or Federal Government contract airfare for individual trips or, on an overall basis, that it is the governmental unit's practice to make routine use of such airfare, specific determinations of nonavailability will generally not be questioned by the Federal Government, unless a pattern of avoidance is detected. However, in order for airfare costs in excess of the customary standard commercial airfare to be allowable, e.g., use of first-class airfare, the governmental unit must justify and document on a case-by-case basis the applicable condition(s) set forth above.

d. Air travel by other than commercial carrier. Cost of travel by governmental unit-owned, -leased, or -chartered aircraft, as used in this section, includes the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, interest, insurance, and other related costs. Costs of travel via governmental unit-owned, -leased, or -chartered aircraft are unallowable to the extent they exceed the cost of allowable commercial air travel, as provided for in subsection c.

42. Underrecovery of costs under Federal agreements. Any excess costs over the Federal contribution under one award agreement are unallowable under other award agreements.

ATTACHMENT C
Circular No. A-87

STATE/LOCAL-WIDE CENTRAL SERVICE COST ALLOCATION PLANS

TABLE OF CONTENTS

A. General

B. Definitions

1. Billed central services
2. Allocated central services
3. Agency or operating agency

C. Scope of the Central Service Cost Allocation Plans

D. Submission Requirements

E. Documentation Requirements for Submitted Plans

1. General
2. Allocated central services
3. Billed services
 - a. General
 - b. Internal service funds
 - c. Self-insurance funds
 - d. Fringe benefits
4. Required certification

F. Negotiation and Approval of Central Service Plans

G. Other Policies

1. Billed central service activities
2. Working capital reserves
3. Carry-forward adjustments of allocated central service costs
4. Adjustments of billed central services
5. Records retention
6. Appeals
7. OMB assistance

A. **General.**

1. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan

should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

2. Guidelines and illustrations of central service cost allocation plans are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost

Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office.

B. Definitions.

1. "Billed central services" means central services that are billed to benefitted agencies and/or programs on an individual fee-for-service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits.
2. "Allocated central services" means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefitted agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, purchasing, etc.
3. "Agency or operating agency" means an organizational unit or sub-division within a governmental unit that is responsible for the performance or administration of awards or activities of the governmental unit.

C. Scope of the Central Service Cost Allocation Plans. The central service cost allocation plan will include all central service costs that will be claimed (either as a billed or an allocated cost) under Federal awards and will be documented as described in section E. Costs of central services omitted from the plan will not be reimbursed.

D. Submission Requirements.

1. Each State will submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. The plan should include (a) a projection of the next year's allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year), and (b) a reconciliation of actual allocated central service costs to the estimated costs used for either the most recently completed year or the year immediately preceding the most recently completed year.
2. Each local government that has been designated as a "major local government" by the Office of Management and Budget (OMB) is also required to submit a plan to its cognizant agency annually. OMB periodically lists major local governments in the **Federal Register**.
3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this Circular and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their

plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub-recipient's plan.

4. All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency on a case-by-case basis.

E. Documentation Requirements for Submitted Plans. The documentation requirements described in this section may be modified, expanded, or reduced by the cognizant agency on a case-by-case basis. For example, the requirements may be reduced for those central services which have little or no impact on Federal awards. Conversely, if a review of a plan indicates that certain additional information is needed, and will likely be needed in future years, it may be routinely requested in future plan submissions. Items marked with an asterisk (*) should be submitted only once; subsequent plans should merely indicate any changes since the last plan.

1. General. All proposed plans must be accompanied by the following: an organization chart sufficiently detailed to show operations including the central service activities of the State/local government whether or not they are shown as benefiting from central service functions; a copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and, a certification (see subsection 4.) that the plan was prepared in accordance with this Circular, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.

2. Allocated central services. For each allocated central service, the plan must also include the following: a brief description of the service*, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted

agencies. If any self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections 3.b. and c. shall also be included.

3. Billed services.

a. General. The information described below shall be provided for all billed central services, including internal service funds, self-insurance funds, and fringe benefit funds.

b. Internal service funds.

(1) For each internal service fund or similar activity with an operating budget of \$5 million or more, the plan shall include: a brief description of each service; a balance sheet for each fund based on individual accounts contained in the governmental unit's accounting system; a revenue/expenses statement, with revenues broken out by source, e.g., regular billings, interest earned, etc.; a listing of all non-operating transfers (as defined by Generally Accepted Accounting Principles (GAAP)) into and out of the fund; a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this Circular, with an explanation of how variances will be handled.

(2) Revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users shall be provided. Expenses shall be broken out by object cost categories (e.g., salaries, supplies, etc.).

c. Self-insurance funds. For each self-insurance fund, the plan shall include: the fund balance sheet; a statement of revenue and expenses including a summary of billings and claims paid by agency; a listing of all non-operating transfers into and out of the fund; the type(s) of risk(s) covered by the fund (e.g., automobile liability, workers' compensation, etc.); an explanation of how the level of fund contributions are determined, including a copy of the current actuarial report (with the actuarial assumptions used) if the contributions are determined on an actuarial basis; and, a description of the procedures used to charge or allocate fund contributions to benefitted activities. Reserve levels in excess of claims (1) submitted and adjudicated but not paid, (2) submitted but not adjudicated, and (3) incurred but not submitted must be identified and explained.

d. Fringe benefits. For fringe benefit costs, the plan shall include: a listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies*; and procedures used to charge or allocate the costs of the benefits to benefitted activities. In addition, for pension and post-retirement health insurance plans, the following information shall be provided: the governmental unit's funding policies, e.g., legislative bills, trust agreements, or State-mandated contribution rules, if different from actuarially determined rates; the pension plan's costs accrued for the year; the amount funded, and date(s) of funding; a copy of the current actuarial report (including the actuarial assumptions); the plan trustee's report; and, a schedule from the activity showing the value of the interest cost associated with late funding.

4. Required certification. Each central service cost allocation plan will be accompanied by a certification in the following form:

CERTIFICATE OF COST ALLOCATION PLAN

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish cost allocations or billings for [identify period covered by plan] are allowable in accordance with the requirements of OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," and the Federal award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.

I declare that the foregoing is true and correct.

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

F. Negotiation and Approval of Central Service Plans.

1. All proposed central service cost allocation plans that are required to be submitted will be reviewed, negotiated, and approved by the Federal cognizant agency on a timely basis. The cognizant agency will review the proposal within six months of receipt of the proposal and either negotiate/approve the proposal or advise the governmental unit of the additional documentation needed to support/evaluate the proposed plan or the changes required to make the proposal acceptable. Once an agreement with the governmental unit has been reached, the agreement will be accepted and used by all Federal agencies, unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special consideration, the funding agency will, prior to the time the plans are negotiated, notify the cognizant agency.

2. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The results of the negotiation shall be made available to all Federal agencies for their use.

3. Negotiated cost allocation plans based on a proposal later found to have included costs that: (a) are unallowable (i) as specified by law or regulation, (ii) as identified in Attachment B of this Circular, or (iii) by the terms and conditions of Federal awards, or (b) are unallowable because they are clearly not allocable to Federal awards, shall be adjusted, or a refund shall be made at the option of the Federal cognizant agency. These adjustments or refunds are designed to correct the plans and do not constitute a reopening of the negotiation.

G. Other Policies.

1. Billed central service activities. Each billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss.

2. Working capital reserves. Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.

3. Carry-forward adjustments of allocated central service costs. Allocated central service costs are usually negotiated and approved for a future fiscal year on a "fixed with carry-forward" basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year. This "carry-forward" procedure applies to all central services whose costs were fixed in the approved plan. However, a carry-forward adjustment is not permitted, for a central service activity that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately.

4. Adjustments of billed central services. Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following

adjustment methods: (a) a cash refund to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds \$500,000.

5. Records retention. All central service cost allocation plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

6. Appeals. If a dispute arises in the negotiation of a plan between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

7. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

ATTACHMENT D
Circular No. A-87

PUBLIC ASSISTANCE COST ALLOCATION PLANS

TABLE OF CONTENTS

A. General

B. Definitions

1. State public assistance agency
2. State public assistance agency costs

C. Policy

D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans

E. Review of Implementation of Approved Plans

F. Unallowable Costs

A. **General.** Federally-financed programs administered by State public assistance agencies are funded predominately by the Department of Health and Human Services (HHS). In support of its stewardship requirements, HHS has published requirements for the development, documentation, submission, negotiation, and approval of public assistance cost allocation plans in Subpart E of 45 CFR Part 95. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the public assistance cost allocation plan. This Attachment extends these requirements to all Federal agencies whose programs are administered by a State public assistance agency. Major federally-financed programs typically administered by State public assistance agencies include: Aid to Families with Dependent Children, Medicaid, Food Stamps, Child Support Enforcement, Adoption Assistance and Foster Care, and Social Services Block Grant.

B. Definitions.

1. "State public assistance agency" means a State agency administering or supervising the administration of one or more public assistance programs operated by the State as identified in Subpart E of 45 CFR Part 95. For the purpose of this Attachment, these programs include all programs administered by the State public assistance agency.

2. "State public assistance agency costs" means all costs incurred by, or allocable to, the State public assistance agency, except expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.

C. **Policy.** State public assistance agencies will develop, document and implement, and the Federal Government will review, negotiate, and approve, public assistance cost allocation plans in accordance with Subpart E of 45 CFR Part 95. The plan will include all programs administered by the State public assistance agency. Where a letter of approval or disapproval is transmitted to a State public assistance agency in accordance with Subpart E, the letter will apply to all Federal agencies and programs. The remaining sections of this Attachment (except for the requirement for certification) summarize the provisions of Subpart E of 45 CFR Part 95.

D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans.

1. State public assistance agencies are required to promptly submit amendments to the cost allocation plan to HHS for review and approval.

2. Under the coordination process outlined in subsection E, affected Federal agencies will review all new plans and plan amendments and provide comments, as appropriate, to HHS. The effective date of the plan or plan amendment will be the first day of the quarter following

the submission of the plan or amendment, unless another date is specifically approved by HHS. HHS, as the cognizant agency acting on behalf of all affected Federal agencies, will, as necessary, conduct negotiations with the State public assistance agency and will inform the State agency of the action taken on the plan or plan amendment.

E. Review of Implementation of Approved Plans.

1. Since public assistance cost allocation plans are of a narrative nature, the review during the plan approval process consists of evaluating the appropriateness of the proposed groupings of costs (cost centers) and the related allocation bases. As such, the Federal Government needs some assurance that the cost allocation plan has been implemented as approved. This is accomplished by reviews by the funding agencies, single audits, or audits conducted by the cognizant audit agency.

2. Where inappropriate charges affecting more than one funding agency are identified, the cognizant HHS cost negotiation office will be advised and will take the lead in resolving the issue(s) as provided for in Subpart E of 45 CFR Part 95.

3. If a dispute arises in the negotiation of a plan or from a disallowance involving two or more funding agencies, the dispute shall be resolved in accordance with the appeals

procedures set out in 45 CFR Part 75. Disputes involving only one funding agency will be resolved in accordance with the funding agency's appeal process.

4. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, the Office of Management and Budget will lend assistance, as required, to resolve such problems in a timely manner.

F. Unallowable Costs. Claims developed under approved cost allocation plans will be based on allowable costs as identified in this Circular. Where unallowable costs have been claimed and reimbursed, they will be refunded to the program that reimbursed the unallowable cost using one of the following methods: (a) a cash refund, (b) offset to a subsequent claim, or (c) credits to the amounts charged to individual awards.

ATTACHMENT E
Circular No. A-87

STATE AND LOCAL INDIRECT COST RATE PROPOSALS

TABLE OF CONTENTS

A. General

B. Definitions

1. Indirect cost rate proposal
2. Indirect cost rate
3. Indirect cost pool
4. Base
5. Predetermined rate
6. Fixed rate
7. Provisional rate
8. Final rate
9. Base period

C. Allocation of Indirect Costs and Determination of Indirect Cost Rates

1. General
2. Simplified method
3. Multiple allocation base method
4. Special indirect cost rates

D. Submission and Documentation of Proposals

1. Submission of indirect cost rate proposals
2. Documentation of proposals
3. Required certification

E. Negotiation and Approval of Rates

F. Other Policies

1. Fringe benefit rates
2. Billed services provided by the grantee agency
3. Indirect cost allocations not using rates

4. Appeals
5. Collections of unallowable costs and erroneous payments
6. OMB assistance

A. General.

1. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

2. Indirect costs include (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan (as described in Attachment C) and not otherwise treated as direct costs.

3. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office.

4. Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include certain State/local-wide central service costs, general administration of the grantee department or agency, accounting and personnel services performed within the grantee department or agency, depreciation or use allowances on buildings and equipment, the costs of operating and maintaining facilities, etc.

5. This Attachment does not apply to State public assistance agencies. These agencies should refer instead to Attachment D.

B. Definitions.

1. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.
2. "Indirect cost rate" is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.
3. "Indirect cost pool" is the accumulated costs that jointly benefit two or more programs or other cost objectives.
4. "Base" means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.
5. "Predetermined rate" means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. (Because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for grants or cooperative agreements.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods.
6. "Fixed rate" means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
7. "Provisional rate" means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a "final" rate for that period.
8. "Final rate" means an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.

9. "Base period" for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit's fiscal year, but in any event, shall be so selected as to avoid inequities in the allocation of costs.

C. Allocation of Indirect Costs and Determination of Indirect Cost Rates.

1. General.

a. Where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures as described in subsection 2.

b. Where a governmental unit's department or agency has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefitted functions by means of a base which best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s).

c. Specific methods for allocating indirect costs and computing indirect cost rates along with the conditions under which each method should be used are described in subsections 2, 3 and 4.

2. Simplified method.

a. Where a grantee agency's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (1) classifying the grantee agency's total costs for the base period as either direct or indirect, and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where a governmental unit's department or agency has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to that department or agency is relatively small.

b. Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

c. The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.

3. Multiple allocation base method.

a. Where a grantee agency's indirect costs benefit its major functions in varying degrees, such costs shall be accumulated into separate cost groupings. Each grouping shall then be allocated individually to benefitted functions by means of a base which best measures the relative benefits.

b. The cost groupings should be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping should constitute a pool of expenses that are of like character in terms of the functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function. The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision needed.

c. Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefitted functions. When an allocation can be made by assignment of a cost grouping directly to the function benefitted, the allocation shall be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the Federal Government and the governmental unit. In general, any cost element or related factor associated with the governmental unit's activities is potentially adaptable for use as an allocation base provided that: (1) it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like), and (2) it is common to the benefitted functions during the base period.

d. Except where a special indirect cost rate(s) is required in accordance with subsection 4, the separate groupings of indirect costs allocated to each major function shall be aggregated and treated as a common pool for that function. The costs in the common pool shall then be distributed to individual Federal awards included in that function by use of a single indirect cost rate.

e. The distribution base used in computing the indirect cost rate for each function may be (1) total direct costs (excluding capital expenditures and other distorting items such as pass-through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution. An indirect cost rate should be developed for each separate indirect cost pool developed. The rate in each case should be stated as the percentage relationship between the particular indirect cost pool and the distribution base identified with that pool.

4. Special indirect cost rates.

a. In some instances, a single indirect cost rate for all activities of a grantee department or agency or for each major function of the agency may not be appropriate. It may not take into account those different factors which may substantially affect the indirect costs applicable to a particular program or group of programs. The factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources employed, the organizational arrangements used, or any combination thereof. When a particular award is carried out in an environment which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that award. The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be used, provided that: (1) the rate differs significantly from the rate which would have been developed under subsections 2. and 3., and (2) the award to which the rate would apply is material in amount.

b. Although this Circular adopts the concept of the full allocation of indirect costs, there are some Federal statutes which restrict the reimbursement of certain indirect costs. Where such restrictions exist, it may be necessary to develop a special rate for the affected award. Where a "restricted rate" is required, the procedure for developing a non-restricted rate will be used except for the additional step of the elimination from the indirect cost pool those costs for which the law prohibits reimbursement.

D. Submission and Documentation of Proposals.

1. Submission of indirect cost rate proposals.

a. All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

b. A governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency. The Office of Management and Budget (OMB) will periodically publish lists of governmental units identifying the appropriate Federal cognizant agencies. The cognizant agency for all governmental units or agencies not identified by OMB will be determined based on the Federal agency providing the largest amount of Federal funds. In these cases, a governmental unit must develop an indirect cost proposal in accordance with the requirements of this Circular and maintain the proposal and related supporting documentation for audit. These governmental units are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating and/or monitoring the sub-recipient's plan.

c. Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant Federal agency).

d. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally-approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

2. Documentation of proposals. The following shall be included with each indirect cost proposal:

a. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection b. Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency and is available to the funding agency.

b. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency in a subsequent proposal.

c. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.

d. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

3. Required certification. Each indirect cost rate proposal shall be accompanied by a certification in the following form:

CERTIFICATE OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to

the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the Federal award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

E. Negotiation and Approval of Rates.

1. Indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special indirect cost rates, the funding agency will, prior to the time the rates are negotiated, notify the cognizant Federal agency.

2. The use of predetermined rates, if allowed, is encouraged where the cognizant agency has reasonable assurance based on past experience and reliable projection of the grantee agency's costs that the rate is not likely to exceed a rate based on actual costs. Long-term agreements

utilizing predetermined rates extending over two or more years are encouraged, where appropriate.

3. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates shall be made available to all Federal agencies for their use.

4. Refunds shall be made if proposals are later found to have included costs that (a) are unallowable (i) as specified by law or regulation, (ii) as identified in Attachment B of this Circular, or (iii) by the terms and conditions of Federal awards, or (b) are unallowable because they are clearly not allocable to Federal awards. These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

F. Other Policies.

1. Fringe benefit rates. If overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process. In these cases, a proposed fringe benefit rate computation should accompany the indirect cost proposal. If fringe benefit rates are not used at the grantee agency level (i.e., the agency specifically identifies fringe benefit costs to individual employees), the governmental unit should so advise the cognizant agency.

2. Billed services provided by the grantee agency. In some cases, governmental units provide and bill for services similar to those covered by central service cost allocation plans (e.g., computer centers). Where this occurs, the governmental unit should be guided by the requirements in Attachment C relating to the development of billing rates and documentation requirements, and should advise the cognizant agency of any billed services. Reviews of these types of services (including reviews of costing/billing methodology, profits or losses, etc.) will be made on a case-by-case basis as warranted by the circumstances involved.

3. Indirect cost allocations not using rates. In certain situations, a governmental unit, because of the nature of its awards, may be required to develop a cost allocation plan that distributes indirect (and, in some cases, direct) costs to the specific funding sources. In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for review, negotiation, and approval.

4. Appeals. If a dispute arises in a negotiation of an indirect cost rate (or other rate) between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

5. Collection of unallowable costs and erroneous payments. Costs specifically identified as unallowable and charged to Federal awards either directly or indirectly will be refunded

(including interest chargeable in accordance with applicable Federal agency regulations).

6. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

[The Budget](#) | [Legislative Information](#) | [Management Reform/GPRA](#) | [Grants Management](#)
[Financial Management](#) | [Procurement Policy](#) | [Information & Regulatory Policy](#)

[Accessibility](#) | [Privacy Statement](#)